COGENT COMMUNICATIONS GROUP INC
Form S-4/A
January 08, 2002

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As Filed With the Securities and Exchange Commission on January 8, 2002

Registration No. 333-71684

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 6
TO

FORM S-4

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

COGENT COMMUNICATIONS GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**4813**	**52-2337274**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

David Schaeffer
Chief Executive Officer
Cogent Communications Group, Inc.
1015 31st Street NW
Washington, D.C. 20007
Tel: (202) 295-4200

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies To:

William P. O'Neill, Esq. **Latham & Watkins** **555 Eleventh Street, N.W., Suite 1000** **Washington, D.C. 20004** **(202) 637-2200**	**Michael R. Carper, Esq.** **Allied Riser Communications Corporation** **1700 Pacific Avenue, Suite 400** **Dallas, TX 75201** **(214) 210-3017**	**Kathleen R. McLaurin, Esq.** **Jones, Day, Reavis & Pogue** **2727 N. Harwood Street** **Dallas, TX 75201** **(214) 220-3939**

Approximate Date of Commencement of Proposed Sale to the Public: As soon as practicable after the effectiveness of this Registration Statement and the satisfaction or waiver of all other conditions to the merger of a wholly-owned subsidiary of the Registrant with and into Allied Riser Communications Corporation pursuant to the Agreement and Plan of Merger described in the enclosed proxy statement/prospectus.

If the securities being registered on this form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. / /

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

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

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

January 7, 2002

Dear Allied Riser Stockholder:

The boards of directors of Allied Riser Communications Corporation and Cogent Communications Group, Inc. have each approved the acquisition by Cogent of Allied Riser and have entered into a merger agreement. Assuming various conditions to the merger agreement are met, Cogent will acquire Allied Riser by merging a Cogent subsidiary with and into Allied Riser, and Allied Riser will be the surviving corporation in the merger. As a result of the merger, Allied Riser will become a wholly owned subsidiary of Cogent. In the merger, stockholders of Allied Riser will receive approximately 0.0321679 shares of common stock of Cogent for each share of common stock of Allied Riser they own. We anticipate that, immediately after we complete the merger, Allied Riser stockholders will own approximately 13.36% of the outstanding common stock of Cogent on a fully diluted basis, subject to certain adjustments.

Your board of directors is giving this proxy statement/prospectus to you to solicit your proxy to vote for adoption of the merger agreement and approval of the merger. A special meeting of the stockholders of Allied Riser to adopt the merger agreement and approve the merger will be held at the offices of Allied Riser located at 1700 Pacific Avenue, Suite 400, Dallas, Texas 75201 on January 31, 2002 at 9:00 a.m. local time. In order to complete the merger, we must obtain the approval of the stockholders of Allied Riser. The merger agreement is described in detail in this document.

Allied Riser common stock is listed on the Nasdaq National Market under the symbol "ARCC," and Cogent is a private company. It is a condition to closing the merger that the shares of Cogent common stock to be received by stockholders of Allied Riser in connection with the merger be quoted or listed on the Nasdaq National Market or a national securities exchange.

The board of directors of Allied Riser unanimously recommends that Allied Riser stockholders vote "FOR" adoption of the merger agreement and approval of the merger.

Your vote is important, regardless of the number of shares you own. If you fail to vote or if you abstain, it will have the same effect as a vote against the merger. Please vote as soon as possible to make sure that your shares are represented at the special meeting. To vote your shares, please complete and return the enclosed proxy card or transmit your voting instructions over the Internet or by telephone in accordance with the procedures set forth in the section entitled "Allied Riser Special Meeting Proxies." You may also cast your vote in person at the special meeting. Please do not send stock certificates at this time.

This is Cogent's prospectus relating to its offer of shares of Cogent common stock to Allied Riser stockholders in the proposed merger, and Allied Riser's proxy statement. Cogent will issue approximately 1,956,250 shares of its common stock to Allied Riser stockholders in connection with the merger. This document provides you with detailed information about the proposed merger. We encourage you to read this entire document carefully. **In particular, see the section entitled "Risk Factors" beginning on page 13 of this document for a discussion of risks associated with the merger**.

Very truly yours,

Allied Riser Communications Corporation	Cogent Communications Group, Inc.
Gerald K. Dinsmore Chairman of the Board of Directors Chief Executive Officer and President	David Schaeffer Chairman of the Board of Directors Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the Cogent Communications Group, Inc. common stock to be issued under this proxy statement/prospectus or determined if this proxy statement/prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

This proxy statement/prospectus is dated January 7, 2002, and is first being mailed to Allied Riser stockholders on or about January 8, 2002.

ALLIED RISER COMMUNICATIONS CORPORATION

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON JANUARY 31, 2002

To the Stockholders of Allied Riser Communications Corporation:

We will hold a special meeting of stockholders of Allied Riser Communications Corporation at the offices of Allied Riser located at 1700 Pacific Avenue, Suite 400, Dallas, Texas 75201, on January 31, 2002, at 9:00 a.m., local time, for the purposes of considering and voting on the following matters, as described in the accompanying proxy statement/prospectus.

1. The adoption of the merger agreement dated as of August 28, 2001, as amended on October 13, 2001, by and among Allied Riser, Cogent Communications Group, Inc., and a wholly owned subsidiary of Cogent, and approval of the merger, pursuant to which the wholly owned subsidiary of Cogent will be merged with and into Allied Riser and all of the outstanding shares of common stock, options, and warrants of Allied Riser will be converted into the right to receive a number of shares of Cogent common stock or options or warrants to purchase Cogent common stock, as applicable, based on the exchange ratio defined in the merger agreement.

2. Any such other business as may properly come before the special meeting or any adjournment thereof.

Holders of record of Allied Riser common stock at the close of business on January 4, 2002 will be entitled to notice of and to vote at the special meeting and any adjournments or postponements thereof.

Your vote is important. The merger cannot be completed unless the holders of a majority of the outstanding shares of Allied Riser common stock entitled to vote adopt the merger agreement and approve the merger. Even if you plan to attend the special meeting in person, we request that you sign and return the enclosed proxy card and thus ensure that your shares will be represented at the special meeting if you are unable to attend. If you do attend the special meeting and wish to vote in person, you may withdraw your proxy and vote in person.

You should not send stock certificates with your proxies. A transmittal letter for your stock will be sent to you by the exchange agent after the merger.

By Order of the Board of Directors,

Secretary

Dallas, Texas
January 7, 2002

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SUMMARY

This brief summary does not contain all of the information that is important to you. To fully understand the merger, you should carefully read this entire document and the other documents to which this document refers. See "Where You Can Find More Information." The pro forma information regarding shares of Cogent common stock throughout this proxy statement/prospectus reflects a ten-for-one reverse stock split that we expect to occur immediately prior to the consummation of the merger. Historical amounts have not been adjusted for the split. Except for references to the merger agreement in "The Merger Opinion of Allied Riser's Financial Advisor" that refer to the merger agreement prior to amendment no. 1, and except where expressly stated to the contrary, all references throughout this proxy statement/prospectus to the merger agreement include amendment no. 1 to the merger agreement, dated as of October 13, 2001.

The Companies (Pages 76 and 92)

Cogent Communications Group, Inc.
1015 31st Street, N.W.
Washington, D.C. 20007
Telephone: (202) 295-4200

Cogent is a facilities-based Internet service provider providing high-speed Internet access to businesses. Cogent currently has facilities to provide its services in twenty major metropolitan markets across the nation and focuses primarily on providing its services to businesses in large office buildings. Cogent was founded in August 1999 and commenced construction of its network in February 2000. It began to generate limited revenues in April 2001, and through September 2001 generated $0.7 million in revenues. Cogent's net losses since inception through September 2001 have been $57.3 million.

For additional information about Cogent and its business, see "Information About Cogent" on page 76.

Allied Riser Communications Corporation
1700 Pacific Avenue, Suite 400
Dallas, Texas 75201-4679
Telephone: (214) 210-3000

Allied Riser is a facilities-based provider of broadband data, video and voice communications services to small- and medium-sized businesses in North America, including Canada. Effective September 21, 2001, Allied Riser suspended its retail services in most of its markets in the United States. Allied Riser is pursuing the provision of in-building wholesale services of its broadband data network.

For additional information about Allied Riser and its business, see "Information About Allied Riser" on page 92 and "Where You Can Find More Information" on page 132.

The Merger (Page 30)

In the merger, Cogent will acquire Allied Riser by merging a wholly owned subsidiary of Cogent, which we call the merger subsidiary, with and into Allied Riser. As a consequence of the merger Allied Riser will become a wholly owned subsidiary of Cogent.

If you are an Allied Riser stockholder, upon completion of the merger, each of your shares of Allied Riser common stock will be converted into the right to receive approximately 0.0321679 shares of common stock of Cogent. Cogent will not issue fractional shares of its common stock. Instead, any otherwise fractional share will be rounded up to a whole share. The number of shares you will receive reflects a ten-for-one reverse stock split of Cogent that we expect to occur immediately prior to the consummation of the merger. For a description of the rights of Cogent common stockholders, see "Description of Cogent Capital Stock."

Cogent's common stock is not currently publicly traded, therefore there is no public market to determine its fair market value. In addition, the price at which Cogent's common stock will trade after the merger is unknown. The price at which Allied Riser's common stock has traded since the accouncement of the proposed merger in late August 2001 may partially reflect a public valuation of Cogent common stock into which Allied Riser common stock will be converted upon completion of the merger. However, this price is likely to be affected by other factors, including uncertainty in the market over the timing and likelihood of the merger's completion.

We have attached the merger agreement prior to amendment no. 1 as Appendix A to this document and amendment no. 1 to the merger agreement as Appendix B to this document. The merger agreement is incorporated by reference into this proxy statement/prospectus. We urge you to read the merger agreement in its entirety. It is the legal document that governs the merger.

Reasons for the Merger (Pages 35 and 44)

Cogent and Allied Riser are proposing the merger because it presents an opportunity for us to combine our networks. We expect to become a stronger competitor in our markets as a result of the merger. In addition, each of the Cogent board of directors and the Allied Riser board of directors considered a number of other factors, including potential risks and detriments. See "The Merger Recommendation of the Cogent Board of Directors; Cogent's Reasons for the Merger," "The Merger Recommendation of the Allied Riser Board of Directors; Allied Riser's Reasons for the Merger" and "Risk Factors."

Recommendation to Allied Riser Stockholders (Page 35)

After careful consideration, the board of directors of Allied Riser unanimously recommends that Allied Riser stockholders vote "FOR" adoption of the merger agreement and approval of the merger. The Allied Riser board of directors believes that the merger agreement is in the best interests of Allied Riser's stockholders. For a more complete description of the recommendation of the Allied Riser board of directors, see the section entitled "The Merger Recommendation of the Allied Riser Board of Directors; Allied Riser's Reasons for the Merger" on page 35.

Allied Riser Special Meeting (Page 27)

Allied Riser will hold a special meeting on January 31, 2002 at 9:00 a.m., local time, at its offices located at 1700 Pacific Avenue, Suite 400, Dallas, Texas 75201. At the special meeting, Allied Riser will ask its stockholders to consider and vote upon a proposal to adopt the merger agreement and approve the merger and to consider any other matters that may properly come before the special meeting.

You may vote at the Allied Riser special meeting if you owned Allied Riser common stock at the close of business on January 4, 2002. On that date, there were 62,002,249 shares of Allied Riser common stock outstanding and entitled to vote. You may cast one vote for each share of Allied Riser common stock that you owned on that date. In order to adopt the merger agreement and approve the merger, the holders of a majority of the outstanding shares of Allied Riser common stock entitled to vote as of January 4, 2002 must vote in favor of adopting the merger agreement and approving the merger.

Approximately 20% of the outstanding shares of Allied Riser common stock entitled to vote to adopt the merger agreement and approve the merger are held by Allied Riser directors and executive officers and their affiliates. The following affiliates, significant stockholders and related parties of Allied Riser holding approximately 26% of the outstanding shares of Allied Riser common stock have agreed

to vote to adopt the merger agreement and to approve the merger: Norwest Venture Partners VII, LP, Telecom Partners II, Telecom Management II, L.L.C., Stephen W. Schovee, William J. Elsner, Crescendo World Fund, LLC, Crescendo Ventures World Fund, LLC, Eagle Venture WF, LLC, Crescendo III, L.P., Crescendo Ventures III, LLC, Crescendo III Executive Fund, L.P., Crescendo Ventures III and Crescendo III GbR, LLC. No other director, officer or affiliate of Allied Riser has indicated an intention to vote either for or against the adoption of the merger agreement and the approval of the merger.

Per Share Market Price Information (Page 74)

On August 28, 2001, the last trading day before we announced the merger, the closing price for Allied Riser common stock on the Nasdaq National Market was $0.12. On January 4, 2002, Allied Riser common stock closed at $0.18 per share.

The market value of the Cogent common stock that will be issued to Allied Riser stockholders at the completion of the merger will not be known when the Allied Riser stockholders meet to vote on the merger because there is no established trading market for shares of Cogent stock.

Cogent has applied to have the Cogent common stock to be issued in the merger approved for quotation on the Nasdaq National Market or listing on a national securities exchange.

Conditions to Completion of the Merger (Page 59)

To complete the merger, a number of conditions must be satisfied. These include:

- Cogent will have completed a ten-for-one reverse stock split of its common stock;
- holders of a majority of the Allied Riser common stock outstanding at the special meeting will have voted to adopt the merger agreement and to approve the merger;
- the Cogent common stock issuable in the merger will have been authorized for quotation on the Nasdaq National Market or listing on a national securities exchange;
- each of the parties will have obtained material consents required in connection with the merger;
- each of the parties will have performed in all material respects all agreements and covenants that it must perform under the merger agreement; and
- the counsel of Cogent and Allied Riser will have delivered legal opinions stating that the merger will qualify as a reorganization under the Internal Revenue Code.

Either party to the merger agreement can elect to waive a condition to its obligation to complete the merger although that condition has not been satisfied. We cannot be certain when (or if) the conditions to the merger will be satisfied or waived or that the merger will be completed. We do not intend to consummate the merger if the Cogent common stock is not approved for quotation on the NASDAQ National Market System or listed for trading on a national securities exchange. In the event that either party waives any of the other conditions to the merger, we do not intend to amend this proxy statement/prospectus or resolicit proxies to vote in favor of the merger prior to the special meeting except for a waiver of the condition by either party that it receive an opinion of its legal counsel stating that the merger will qualify as a reorganization under the Internal Revenue Code or unless we deem such condition to be material.

Termination of the Merger Agreement; Termination Fees (Pages 60 and 61)

The merger agreement may be terminated and abandoned in certain circumstances. These include:

- by the written consent of Cogent and Allied Riser;

- by either Cogent or Allied Riser if:
  - the merger has not occurred on or prior to December 7, 2001, as extended under certain circumstances to the earlier of January 31, 2002 and the 25th day after this proxy statement/prospectus is declared effective;

Allied Riser's stockholders do not adopt the merger agreement;

the merger is prohibited by law or if any final governmental judgment or order prohibits the merger; or

the other has materially breached any of its representations, warranties, covenants, or agreements contained in the merger agreement;

by Cogent, if Allied Riser or its subsidiaries or any of their directors or officers fails to comply with the "No Solicitation" provisions of the merger agreement, as described in greater detail in "Material Terms of the Merger Agreement;" or

by Allied Riser to enter into another transaction that is financially superior to the merger in response to an unsolicited acquisition proposal, provided that Allied Riser complies with the "No Solicitation" provisions of the merger agreement, as described in greater detail in "Material Terms of the Merger Agreement," and pays a termination fee.

Each of Cogent and Allied Riser has agreed to pay a termination fee of $5 million to the other party in the event that the merger agreement is terminated under specified circumstances. A $5 million termination fee is also payable by a party under specified circumstances relating to a breach by it of certain of its obligations under the merger agreement or the failure to obtain its stockholders' approval of the merger.

No Appraisal Or Dissenters' Rights (Page 49)

Under Delaware law, holders of Allied Riser common stock are not entitled to dissenters' or appraisal rights in connection with the merger, which means you do not have any right to an appraisal of the value of your Allied Riser shares. Accordingly, if you vote against the adoption of the merger agreement, and the merger agreement is adopted by the holders of a majority of the Allied Riser common stock, you will become a stockholder of Cogent.

Allied Riser Stock Options; Restricted Stock (Page 52)

Upon completion of the merger, each outstanding Allied Riser stock option will be converted into a stock option to purchase a number of shares of Cogent common stock that is equal to the product of the exchange ratio, multiplied by the number of shares of Allied Riser common stock that would have been obtained upon the exercise of the Allied Riser stock option before the merger, rounded to the nearest whole share. The exercise price per share will be equal to the exercise price per share of Allied Riser common stock subject to an Allied Riser stock option before the conversion divided by the exchange ratio, rounded to the nearest whole cent. At the effective time of the merger each share of Allied Riser common stock subject to a repurchase option, risk of forfeiture, or other condition or restriction will be converted into the same number of shares of Cogent common stock into which shares of unrestricted Allied Riser common stock convert. All shares of Cogent common stock issued in exchange for shares of restricted Allied Riser common stock will retain any such condition or restriction, except to the extent provided otherwise in any agreement between Allied Riser and any holder of shares of restricted Allied Riser common stock.

Waiver and Amendment (Page 62)

Allied Riser and Cogent may jointly amend the merger agreement, and each of us may waive our right to require the other party to adhere to the terms and conditions of the merger agreement, to the extent legally permissible.

Accounting Treatment (Page 47)

The acquisition will be accounted for as a purchase for financial reporting and accounting purposes, under the newly issued Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets." SFAS No. 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. The purchase price will be allocated to Allied Riser's assets and liabilities based upon the fair values of the assets acquired and liabilities assumed by Cogent. Goodwill and intangible assets acquired after June 30, 2001, will be subject immediately to SFAS No. 142, which changes the accounting for goodwill and intangible assets with indefinite lives from an amortization method to an impairment approach. A portion of the purchase price may be allocated to identifiable intangible assets. Any excess of the cost over the fair values of the net tangible and identifiable intangible assets acquired from Allied Riser will be recorded as goodwill. Goodwill and intangible assets with indefinite lives will not be amortized. Amortization will be required for identifiable intangible assets with finite lives. Any excess of the fair value of net assets acquired over cost, or negative goodwill, is allocated as a pro-rata reduction to all of the acquired assets except financial assets and current assets. Any remaining negative goodwill is recorded as an extraordinary gain. We have included unaudited pro forma financial information in this proxy statement under the caption "Unaudited Condensed Combined Pro Forma Financial Statements." The pro forma adjustments and the resulting unaudited condensed combined pro forma financial statements were prepared based on available information and assumptions and estimates described in notes to the unaudited condensed combined pro forma financial statements. Cogent has not made a final determination of required purchase accounting adjustments, including the allocation of the purchase price to the assets acquired and liabilities assumed, and you should consider the allocation reflected in the unaudited condensed combined pro forma financial statements preliminary.

Material United States Federal Income Tax Considerations (Page 46)

The merger has been structured so as to qualify as a reorganization under section 368(a) of the Internal Revenue Code. As such, Jones, Day, Reavis & Pogue, counsel to Allied Riser, has opined that holders of Allied Riser common stock will not recognize gain or loss on the exchange of Allied Riser common stock for Cogent common stock pursuant to the merger. However, Allied Riser stockholders should consult their tax advisors for a full understanding of the tax consequences of the merger.

Regulatory Approvals (Page 45)

Certain subsidiaries of Allied Riser have been granted authorizations to provide telecommunications services by federal and state regulatory agencies, but Allied Riser does not believe these authorizations are required to conduct its business. Allied Riser will seek the approval of the relevant regulatory agencies prior to consummating the merger to the extent required by the merger agreement, and may otherwise seek approval of the relevant regulatory agencies prior to consummating the merger to the extent necessary to maintain these authorizations.

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Interests of Certain Persons in the Merger That Are Different From Your Interests (Page 48)

In considering the recommendation of the Allied Riser board of directors, you should be aware that certain officers and directors of Allied Riser have interests in the merger that are different from, or in addition to, the interests of Allied Riser stockholders generally.

In particular:

- Messrs. Dinsmore, Bredeweg and Carper, and Ms. Compton, each an executive officer of Allied Riser, have employment agreements that provide for certain severance payments upon termination of the employee's employment without cause and upon a change in control of Allied Riser. These executive officers of Allied Riser will receive as severance, in lieu of any unpaid lump sum or performance incentive bonus payments, either (1) six months' salary, in each case as contemplated by his or her employment agreement, or (2) an amount to be determined by Mr. Gerald K. Dinsmore, chief executive officer of Allied Riser, or with respect to Mr. Dinsmore, the board of directors of Allied Riser, to be paid from an approximately $5.2 million retention, severance, and bonus pool established for all employees of Allied Riser. If the above-named executive officers elect to receive the severance payments from the pool, he or she will forfeit any stock options outstanding as of the date of the merger.

- All stock options and restricted shares that Allied Riser executive officers and directors were awarded under stock option and restricted share plans prior to the merger will become fully vested in connection with the merger. The stock options will be converted into options to purchase Cogent common stock on the same terms and conditions, as adjusted based on the exchange ratio in the merger agreement, that were applicable to the options issued under Allied Riser's stock incentive plans. The restricted shares will be converted into the right to receive shares of Cogent common stock based on the exchange ratio.

- The merger agreement provides for the indemnification of Allied Riser directors and officers after closing as to matters arising before completion of the merger, as well as the provision of directors' and officers' insurance after closing. See "Material Terms of the Merger Agreement Additional Agreements Insurance and Indemnification."

The members of Allied Riser's board of directors knew about these additional interests, and considered them, among other matters, when they approved the merger agreement and amendment no. 1 to the merger agreement.

Risks of the Merger (Page 13)

In considering whether to adopt the merger agreement and approve the merger, you should consider certain risks of the merger. We urge you to read carefully all of the factors described in "Risk Factors" before voting.

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: What should I do now?

A: Please carefully read and consider the information contained in this document. If you are currently an Allied Riser stockholder, please complete, sign, and mail your proxy card in the enclosed postage-prepaid return envelope as soon as possible so that your shares of Allied Riser common stock may be represented at the special meeting. Alternatively, you can simplify your voting by voting your shares via telephone or the Internet. The telephone and Internet voting procedures, which are set forth in this proxy statement/prospectus, are designed to authenticate your identity, allow you to vote your shares, and confirm that your instructions have been properly recorded. If you elect to vote over the Internet, you may incur costs such as telecommunication and Internet access charges. The Internet and telephone voting facilities for stockholders of record will close at 4:00 p.m. Eastern Time on the evening before the special meeting. In order to ensure that your shares are voted, please give your proxy in accordance with the instructions on your proxy card even if you currently plan to attend the special meeting and vote in person. For a more complete description of the voting procedures, see the section entitled "Allied Riser Special Meeting Proxies" on page 27.

Q: What if I don't vote?

A: If you do not submit a proxy or instruct your broker to vote your shares, and you do not vote in person at the special meeting, the effect will be the same as if you voted "AGAINST" the adoption of the merger agreement and approval of the merger.

Q: If my shares are held in "street name" by my broker, will my broker vote my shares for me?

A: Your broker will not be able to vote your shares without instructions from you on how to vote. Therefore, it is important that you follow the directions provided by your broker regarding how to instruct your broker to vote your shares. If you fail to provide your broker with instructions, it will have the same effect as a vote "AGAINST" the adoption of the merger agreement and approval of the merger. If your shares are held in the name of a bank or broker, the availability of telephone and Internet voting will depend on the voting processes of the bank or broker; therefore, you should follow the voting instructions on the form you receive from your bank or broker.

Q: Can I change my vote or election after I have delivered my proxy or election?

A: Yes. You can change your vote at any time before your proxy is voted at the special meeting. You can do this in one of three ways. First, you can revoke your proxy. Second, you can submit a new proxy. If you choose either of these two methods and you are a holder of record, you must submit your notice of revocation or your new proxy to the Secretary of Allied Riser before the special meeting. However, if your shares are held in a street name account at a brokerage firm or bank, you should contact your brokerage firm or bank to change your vote. Third, if you are a holder of record, or if your shares are held in street name and you receive a valid proxy from your broker, you can attend the special meeting and vote in person.

Q: Should I send in my Allied Riser stock certificates now?

A: No. After we complete the merger, an exchange agent on behalf of Cogent will send instructions to Allied Riser stockholders whose shares were converted in the merger. These instructions will explain how to exchange your Allied Riser stock certificates for the appropriate Cogent stock certificates. Cogent stockholders will continue to own their shares of Cogent common stock after the merger and should continue to hold their stock certificates.

Q: Who can help answer my questions?

A: If you have any questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement/prospectus or the enclosed proxy cards or voting instructions, you should contact Allied Riser's proxy solicitation agent, Georgeson Shareholder at 1-866-811-4093.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION OF COGENT

The annual financial information set forth below has been derived from the audited financial statements of Cogent. The data for the nine-month periods ended September 30, 2001 and 2000 have been derived from the unaudited consolidated financial statements of Cogent. The information should be read in connection with, and is qualified in its entirety by reference to Cogent's financial statements and notes included elsewhere in this proxy statement/prospectus. The interim data reflect all adjustments that, in the opinion of management of Cogent, are necessary to present fairly such information for the interim periods. The results of operations for the nine-month periods are not necessarily indicative of the results expected for a full year or any interim period. Cogent was incorporated on August 9, 1999. Accordingly, no financial information prior to August 9, 1999 is available.

	Years Ended December 31,		(Unaudited) Nine Months Ended September 30,	
	1999	**2000**	**2000**	**2001**
	(in thousands, except per share data)			
CONSOLIDATED STATEMENT OF OPERATIONS DATA:				
Service revenue	$	$	$	747
Expenses:				
Cost of network operations		3,040	626	15,473
Selling, general, and administrative	82	10,845	5,010	21,756
Depreciation and amortization		338	85	5,955
Total operating expenses	82	14,223	5,721	43,184
Loss from operations	(82)	(14,223)	(5,721)	(42,437)
Interest income (expense), net		2,328	1,669	(3,191)
Other income		134	83	198
Net income (loss)	(82)	(11,761)	(3,969)	(45,430)
Net (loss) per common share basic and diluted	$ (0.01)	$ (0.85)	$ (0.30)	$ (3.23)
CONSOLIDATED BALANCE SHEET DATA (AT PERIOD END):				
Cash and cash equivalents	$	$ 65,593	$ 91,199	$ 10,528
Working capital	18	52,621	62,766	607
Total assets	25	204,594	185,907	247,768
Preferred stock		115,901	115,901	115,901
Stockholders' equity	18	104,249	111,970	59,418
OTHER OPERATING DATA:				
EBITDA	$ (82)	$ (13,885)	$ (5,636)	$ (36,482)
Net cash used in investing activities		(80,989)	(36,745)	(83,897)
Net cash provided by financing activities	75	162,952	136,951	59,123

As used in the table above, EBITDA consists of net loss excluding net interest, income taxes, depreciation, and amortization. We believe that, because EBITDA is a measure of financial performance, it is useful to investors as an indicator of a company's ability to fund its operations and to service or incur debt. EBITDA is not a measure calculated under accounting principles generally accepted in the United States. Other companies may calculate EBITDA differently. It is not an alternative to operating income as an indicator of our operating performance or an alternative to cash flows from operating activities as a measure of liquidity and investors should consider these measures as well. We do not expect to generate positive EBITDA in the near term. We anticipate that our discretionary use of EBITDA, if any, generated from our operations in the foreseeable future will be restricted by our need to build our infrastructure and expand our business. To the extent that EBITDA is available for these purposes, our requirements for outside financing will be reduced.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION OF ALLIED RISER

The annual financial information set forth below has been derived from the audited consolidated financial statements of Allied Riser. The data for the nine-month periods ended September 30, 2001 and 2000 have been derived from the unaudited consolidated financial statements of Allied Riser. The information should be read in connection with, and is qualified in its entirety by reference to, Allied Riser's financial statements and the notes included elsewhere in this proxy statement/prospectus and contained in the annual and quarterly reports and other information that Allied Riser has filed with the SEC. The interim data reflect all adjustments that, in the opinion of management of Allied Riser, are necessary to present fairly such information for the interim periods. The results of operations of the nine-month periods are not necessarily indicative of the results expected for a full year or any interim period.

	Year Ended December 31,				**(Unaudited) Nine Months Ended September 30,**	
	1997	**1998**	**1999**	**2000**	**2000**	**2001**
	(in thousands, except share and per share amounts)					
CONSOLIDATED STATEMENT OF INCOME (LOSS) DATA:						
Network services revenue	$	$ 212	$ 1,422	$ 10,969	$ 6,161	$ 18,547
Value added services revenue			448	3,363	1,572	5,680
Total revenue		212	1,870	14,332	7,733	24,227
Operating expenses:						
Network operations	80	2,358	8,625	43,965	30,365	57,050
Cost of value added services			128	2,356	1,101	4,013
Selling expense		1,623	10,317	46,967	36,005	19,062
General and administrative expenses	1,348	9,736	38,570	67,173	52,696	36,397
Depreciation and amortization	10	499	5,007	36,155	25,041	32,484
Asset write-down						262,336
Total operating expenses	1,438	14,216	62,647	196,616	145,208	411,342
Operating income (loss)	(1,438)	(14,004)	(60,777)	(182,284)	(137,475)	(387,115)
Other income (expense)	(59)	(606)	3,289	8,876	9,165	(4,753)
Income (loss) before extraordinary items	(1,497)	(14,610)	(57,488)	(173,408)	(128,310)	(391,868)
Accrued dividends on preferred stock		(452)	(6,452)			
Income (loss) applicable to common stock before extraordinary items	$ (1,497)	$ (15,062)	$ (63,940)	$ (173,408)	$ (128,310)	$ (391,868)

	Year Ended December 31,				(Unaudited) Nine Months Ended September 30,	
Income (loss) per common share before extraordinary items	$ (7.45)	$ (8.09)	$ (2.15)	$ (3.18)	$ (2.38)	$ (6.59)
Weighted average number of shares outstanding	201,000	1,862,000	29,736,000	54,472,000	53,911,000	59,493,000
CONSOLIDATED BALANCE SHEET DATA:						
Cash and cash equivalents	$ 188	$ 41,371	$ 152,564	$ 29,455	$ 134,063	$ 28,482
Short-term investments			162,013	212,107	166,113	86,241
Property and equipment, net	1,250	13,005	46,577	182,442	167,194	33,191
Total assets	1,487	55,572	475,054	589,703	635,625	168,488
Total capital lease obligations and other debt	2,568	2,142	7,728	74,232	53,752	60,425
Convertible notes				150,000	150,000	123,600
Total liabilities	3,228	5,257	22,640	263,173	263,467	213,784
Convertible redeemable preferred stock		66,452				
Additional paid-in capital	163	375	434,930	460,137	464,691	509,294
Warrants			109,135	127,846	131,229	71,127
Stockholders' equity (deficit)	(1,741)	(16,137)	452,414	326,530	372,158	(45,296)

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As used in the table below, EBITDA consists of net loss excluding the effect of extraordinary items, net interest, income taxes, depreciation, amortization, and write-down of long lived assets. EBITDA does not reflect our non-cash expenses. Allied Riser believes that, because EBITDA is a measure of financial performance, it is useful to investors as an indicator of a company's ability to fund its operations and to service or incur debt. EBITDA is not a measure calculated under accounting principles generally accepted in the United States. Other companies may calculate EBITDA differently. It is not an alternative to operating income as an indicator of Allied Riser's operating performance or an alternative to cash flows from operating activities as a measure of liquidity and investors should consider these measures as well. Allied Riser does not expect to generate positive EBITDA for the foreseeable future.

	Year Ended December 31,				Nine Months Ended September 30,	
	1997	1998	1999	2000	2000	2001
	(dollars in thousands)					
OTHER OPERATING DATA						
Net cash used in operating activities	$ (1,228)	$ (14,420)	$ (39,152)	$ (118,535)	$ (61,679)	$ (95,257)
Net cash provided by (used in) investing activities	(1,088)	(8,115)	(181,908)	(144,654)	(98,545)	118,663
Net cash provided by (used in) financing activities	2,504	63,718	332,253	140,317	141,726	(24,342)
EBITDA	(1,401)	(13,504)	(41,095)	(136,710)	(102,179)	(90,950)
Capital expenditures	1,220	12,032	36,543	146,172	124,548	9,273

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SUMMARY UNAUDITED PRO FORMA INFORMATION

The following summary unaudited pro forma combined financial data has been derived from and should be read together with the unaudited pro forma combined financial statements and related notes. This information is based on the historical consolidated balance sheets and related historical consolidated statements of income of Cogent and Allied Riser, giving effect to the merger using the purchase method of accounting for business combinations. The summary unaudited pro forma combined financial data is also based upon the historical financial statements of NetRail, Inc. (NetRail) and reflects the impact of Cogent's acquisition of certain assets of NetRail on September 6, 2001. The summary unaudited pro forma combined financial data also reflects the issuance of $62.0 million of Cogent's Series C Preferred Stock, the impact of Cogent's October 2001 credit facility, and settlement and termination of certain of Allied Riser's capital leases and maintenance obligations. See "Cogent Communications Group, Inc. Financial Statements," and "Allied Riser Communications Corporation Financial Statements."

The companies may have performed differently had they always been combined. You should not rely on the summary unaudited pro forma combined financial data as being indicative of the historical results that would have been achieved had the companies always been combined or the future results that the combined company will experience after the merger. This information is for illustrative purposes only.

	Nine Months Ended September 30, 2001	Year Ended December 31, 2000
	(thousands of dollars, except per share amounts)	
Operating revenues	$ 25,410	$ 14,598
Operating income (loss)	$ (399,885)	$ (164,564)
Net income (loss)	$ (411,887)	$ (164,274)
Basic and diluted net loss per common share	$ (114.53)	$ (45.96)
Cash dividends per common share	$	$

	At September 30, 2001
Total assets	$ 437,882
Long-term debt	$ 196,132
Stockholders' equity	$ 148,464

COMPARATIVE PER SHARE DATA

Set forth below are the loss, cash dividends, and book value per common share amounts for Cogent and Allied Riser on a historical basis and for Cogent on a pro forma combined basis per Cogent-equivalent common share, and on a pro forma combined basis per Allied Riser-equivalent common share. The exchange ratio used in this table is 0.0321679 shares of Cogent common stock for each share of Allied Riser common stock.

The Cogent pro forma combined data per Cogent-equivalent common share was derived by combining the adjusted consolidated financial information of Cogent and the historical consolidated financial information of Allied Riser and NetRail using the purchase method of accounting for business combinations as described under "Unaudited Condensed Combined Pro Forma Financial Statements."

The Cogent pro forma combined data, per Allied Riser-equivalent common share information, shows the effect of the merger from the perspective of an owner of Allied Riser common stock. The information was computed by multiplying the Cogent pro forma information by an assumed exchange ratio of 0.0321679.

You should read the information below together with our historical financial statements and related notes included in this document. See "Cogent Communications Group, Inc. Financial Statements," "NetRail, Inc. Financial Statements," and "Allied Riser Communications Corporation Financial Statements." The unaudited pro forma combined data below is for illustrative purposes only. The financial results may have been different had the companies always been combined. You should not rely on this information to be indicative of the historical results that would have been achieved had the companies always been combined or the future results that Cogent will experience after the merger.

	Nine Months Ended September 30, 2001	Year Ended December 31, 2000
Cogent historical data, per common share:		
Loss per common share	$ (3.23)	$ (0.85)
Loss per common share assuming dilution	$ (3.23)	$ (0.85)
Cash dividends	$	$
Book value per common share at end of period	$ 4.22	$ 7.44
Book value per common share assuming dilution(1)	$ 0.99	$ 1.74
Cogent pro forma combined data, per Cogent-equivalent common share:		

	Nine Months Ended September 30, 2001		Year Ended December 31, 2000	
Loss per common share	$	(114.53)	$	(45.96)
Loss per common share assuming dilution	$	(114.53)	$	(45.96)
Cash dividends				
Book value per common share at end of period	$	41.24		*
Book value per common share assuming dilution(1)	$	18.15		*
Allied Riser historical data, per common share:				
Loss per common share	$	(6.29)	$	(3.18)
Loss per common share assuming dilution	$	(6.29)	$	(3.18)
Cash dividends	$		$	
Book value per common share at end of period	$	(0.74)	$	5.58
Cogent pro forma combined data, per Allied Riser-equivalent common share:				
Loss per common share	$	(3.68)	$	(1.48)
Loss per common share assuming dilution	$	(3.68)	$	(1.48)
Cash dividends	$		$	
Book value at end of period	$	1.33		*
Book value per common share assuming dilution(1)	$	0.58		*

* A pro forma combined balance sheet as of December 31, 2000 is not required to be presented.

(1) Determined by dividing total shareholders equity by the number of common and preferred shares outstanding at the end of the period.

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RISK FACTORS

When you decide whether to vote for adoption of the merger agreement and approval of the merger, you should consider the following factors in conjunction with the other information included or incorporated by reference in this proxy statement/prospectus.

Risks Relating to the Merger

Cogent will face challenges in integrating Cogent and Allied Riser and, as a result, may not realize the expected benefits of the merger.

Integrating the operations of Cogent and Allied Riser will be a costly and complex process. We are uncertain that the integration will be completed rapidly or that it will achieve the anticipated benefits of the merger. Allied Riser's in-building networks will have to be integrated with Cogent's network of metropolitan fiber optic networks and long-haul fiber optic networks. This process will, at a minimum, require us to obtain or construct connections from our metropolitan fiber network to buildings in which Allied Riser has completed in-building networks and to purchase and install equipment in addition to that currently installed in Allied Riser's networks. We expect that integration costs will be significant.

The diversion of the attention of management and any difficulties encountered in the process of combining the companies and integrating operations could cause the disruption of the activities of the combined company's business. Further, the process of combining Cogent and Allied Riser and related uncertainties associated with the merger could negatively affect employee performance, satisfaction, and retention.

Allied Riser also has liabilities including capital leases, office leases, and carrier contracts for transmission capacity, that it is currently attempting to discharge or otherwise resolve. Allied Riser's efforts in this regard may not be successful or favorable. After the closing of the merger, any existing liabilities of Allied Riser that are not resolved prior to the closing of the merger will become liabilities of Cogent.

Both Cogent and Allied Riser may not be able to take certain actions because of restrictions in the merger agreement.

While the merger agreement is in effect and prior to closing the merger, Cogent and its subsidiaries are prohibited from taking any actions that, individually or in the aggregate, materially delay the filing of or require any material amendment or supplement to Cogent's registration statement or necessitate a recirculation of the Allied Riser proxy statement. In addition, Cogent is generally prohibited from acquiring or agreeing to acquire any businesses or substantial assets of a company prior to the completion of the merger. As a result of these prohibitions, Cogent may be unable to take certain actions that might otherwise be favorable to it.

While the merger agreement is in effect and prior to closing the merger, Allied Riser and its subsidiaries are prohibited from incurring any expenses or making any payments that, in the aggregate, exceed the amounts contemplated by, or taking any action that is materially inconsistent with, the authorized cash expenditures agreed to by Cogent and Allied Riser in the merger agreement. As a result of this prohibition, Allied Riser may be unable to take certain actions that might otherwise be favorable to it.

Our officers and directors have conflicts of interest that may influence them to support or approve the merger agreement and the merger.

Some of the executive officers and directors of both Cogent and Allied Riser have interests in the merger that are different from, or are in addition to, your interests as a stockholder. In particular, certain of the Allied Riser executive officers' and directors' restricted stock and stock options will fully

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vest and be convertible into Cogent common stock in connection with the merger. Additionally, certain executive officers of Allied Riser will receive as severance, in lieu of any unpaid lump sum or performance incentive bonus payments, either (1) six months' salary, in each case as contemplated by his or her employment agreement, or (2) an amount to be determined by Mr. Gerald K. Dinsmore, chief executive officer of Allied Riser, or with respect to Mr. Dinsmore, the board of directors of Allied Riser, to be paid from an approximately $5.2 million retention, severance, and bonus pool established for all employees of Allied Riser, in the case of severance payments from the pool, subject to forfeiture of any stock options outstanding as of the date of the merger. As a result, these officers and directors could be more likely to support the merger, and these directors could be more likely to vote to approve the merger, than if they did not hold these interests. You should consider whether these interests may have influenced these officers and directors to support the merger.

As a result of the merger, the combined company will incur transaction and integration costs that may exceed our estimates, either of which may negatively affect our financial condition and operating results.

Cogent will incur significant transaction costs as a result of the merger, including legal and accounting fees, all of which may exceed our current estimates. Cogent also expects that the combined company will charge consolidation and integration expenses to operations in fiscal 2001 and 2002, but we cannot estimate these expenses accurately at this time. Actual transaction costs and consolidation and integration expenses may substantially exceed Cogent's estimates and may have an adverse effect on Cogent's financial condition and operating results.

Risks Relating to Cogent After the Merger

We are an early-stage company in an unproven industry, and if we do not grow rapidly and obtain additional capital we will not succeed.

Cogent and Allied Riser have short operating histories and therefore the information available to evaluate the prospects of the combined company is limited. Cogent initiated its operations in 2000 and Allied Riser initiated its operations in 1998. Moreover, the market for high-speed Internet service itself has only existed for a short period of time and is unproven. Accordingly, you must consider our prospects in light of the risks, expenses, and difficulties frequently encountered by companies in their early stage of development, particularly in a new, unproven market.

Because the communications industry is capital intensive, rapidly evolving, and subject to significant economies of scale, as a relatively small organization we are at a competitive disadvantage. The growth we must achieve to reduce that disadvantage will put a significant strain on all of our resources. If we fail to grow rapidly, we may not be able to compete with larger, well-established companies.

Our future capital requirements to sustain our current operations and to obtain the necessary growth will depend on a number of factors, including our success in increasing the number of customers and the number of buildings we serve, the expenses associated with the build-out and maintenance of our network, regulatory changes, competition, technological developments, potential merger and acquisition activity, and the economy's ability to recover from the recent downturn. Additionally, our future capital requirements likely will increase if we acquire or invest in additional businesses, assets, products, and technologies. Until we can generate sufficient levels of cash from our operations, which we do not expect to achieve for the foreseeable future, we will continue to rely on equity financing and long-term debt to meet our cash needs. Given the current condition of the financial markets, it has become very difficult to raise capital, especially for telecommunications companies like Cogent. There is no assurance that access to additional capital will become any easier in the future, nor can we assure you that any such financing will be available on terms favorable to us or our stockholders. Additionally, our amended and restated charter contains provisions that require our

preferred stockholders to approve most equity issuances by us and that give our preferred stockholders adjusted conversion ratios if we issue equity at a lower price per share than those holders paid. Insufficient funds may require us to delay or scale back the build-out of our network. If additional funds are raised by issuing equity securities, substantial dilution to existing stockholders may result. In addition, if our operations do not produce positive cash flow in sufficient amounts to pay our financing obligations, our future financial results and our ability to implement our business plan will be materially and adversely affected.

There is no current public market for Cogent common stock.

Cogent's common stock is not currently publicly traded, therefore there is no public market to determine its fair market value. Accordingly, we do not know what value a public market would assign to Cogent common stock. Likewise, the price at which Cogent's common stock will trade after the merger is unknown.

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

Since our formation, we have generated increasing losses and we anticipate that Cogent will continue to incur increasing losses for the foreseeable future. In 2000, we had a net loss of $11.8 million on no revenues, and in the first nine months of 2001, we had a net loss of $45.4 million on revenues of $0.7 million. As of September 30, 2001, we had an accumulated deficit of $57.3 million and a pro forma accumulated deficit of $46.3 million. Allied Riser incurred net losses of $173.4, $57.5, and $14.6 million in 2000, 1999, and 1998 respectively, and in the first nine months of 2001, Allied Riser had a net loss of $374.1 million.

Additionally, we expect our operating losses to increase significantly as we integrate Allied Riser. Continued losses significantly greater than we anticipate may prevent us from pursuing our strategies for growth or require us to seek unplanned additional capital, and could cause us to be unable to meet our debt service obligations, capital expenditure requirements, or working capital needs.

We are leveraged and a significant portion of our debt may become due if the merger is deemed to be a "change in control" of Allied Riser.

As of September 30, 2001, on a pro forma basis after giving effect to the issuance of $62 million of our Series C Preferred Stock, the impact of the amendment to our credit facility, the settlement and termination of certain Allied Riser's capital leases and maintenance obligations, and Cogent's acquisition of certain assets of NetRail, we had $196.1 of outstanding long-term indebtedness, and additional borrowing capacity of $272.4 million under the October 2001 Cogent credit facility. Our high level of indebtedness will have consequences on our operations. Among other things, our indebtedness will:

- limit our ability to obtain additional financing;
- limit our flexibility in planning for, or reacting to, changes in our market or business plan; and
- render us more vulnerable to general adverse economic and industry conditions.

Our credit facility requires us to meet certain operational performance measures. These are measured and reported on a monthly basis until June 2002. If we are unable to meet these we may not be permitted to borrow additional amounts under that facility until we meet the monthly covenants under that facility. Our credit facility also has financial covenants that we must meet. These are measured quarterly beginning in the third quarter of 2002. If we do not meet them, we will be in default of the credit facility agreement.

Additionally, Allied Riser's 7.50% Convertible Subordinated Notes Due 2007 may become immediately due if the merger is deemed to be a "change in control," as defined by the related indenture. We do not believe that the merger would qualify as a change in control, but in the event that the merger is deemed to be a change in control, we could be required to repurchase $123.6 million in aggregate principal amount of the notes. We cannot assure you that we will have the ability to repay the 7.50% Convertible Subordinated Notes Due 2007 if the holders elect to require the repurchase. If we are unable to repurchase the notes, we will be in default of the indenture and our obligations under our credit facility could become due and payable.

Allied Riser announced on December 12, 2001, that it had initiated the repurchase of certain of its 7.50% convertible subordinated notes due 2007 (the "notes") at a discount from the face value of the notes in limited open market or negotiated transactions. Allied Riser also announced that certain holders of the notes filed notices as a group with the SEC on Schedule 13D including copies of documents indicating that such group had filed suit on December 6, 2001 against Allied Riser and its board of directors alleging, among other things, breaches of fiduciary duties and requesting injunctive relief to prohibit Allied Riser's merger with Cogent, and alleging default by Allied Riser under the indenture related to the notes. We believe that these claims are without merit.

Antidilution and conversion-price adjustment provisions could make it more difficult to raise new equity capital in the future.

Provisions of our amended and restated certificate of incorporation could make it more difficult for us to attract new investment in the future, even if doing so would be beneficial to our stockholders. Under the terms of our certificate of incorporation with respect to our Series C preferred stock, for example, if we issue additional shares of capital stock at a price per share that is less than the price of the Series C preferred stock, the holders of the Series C preferred stock will have the right to convert their stock to common stock at the same, reduced price per share. In addition, the holders of the preferred stock have liquidation preferences in the event of the sale or liquidation of Cogent. Such provisions may have the effect of inhibiting our ability to raise needed capital.

Our common stock may not be approved for quotation and trading on the NASDAQ National Market System at the time of the merger, and may be listed for trading on another national securities exchange.

We have applied to list our common stock on the NASDAQ National Market System, but may not receive approval from NASDAQ due to our failure to meet the minimum public float requirement of $18 million for listing at the time of the merger. The public float refers to the total market value of our common shares available for trading that are not held by our directors, officers or other affiliates, which in this case would include only those shares we issue to the Allied Riser stockholders in the merger, plus a nominal amount of additional shares held by individuals who are not a director, officer or affiliate of Cogent. Based on the closing market price of $0.18 for a share of Allied Riser common stock on January 4, 2002, the public float of Allied Riser is approximately $11.2 million. We do not know what the public float of Cogent will be following consummation of the merger. The Cogent public float may or may not be sufficient to meet the NASDAQ listing requirements.

We have also applied for listing our common stock on the American Stock Exchange, which has a minimum public float requirement of $15 million. AMEX may waive this requirement, but has yet to indicate to us a willingness to do so. If we are unable to list our common stock for trading on either the NASDAQ National Market System or AMEX, we intend to seek approval to list our common stock on the Philadelphia, Boston, Chicago or Pacific Stock Exchanges, each of which have substantially lower public float requirements that we believe we will be able to meet at the time of the merger. Although each of these are registered as national securities exchanges, our stockholders may experience less liquidity in the trading of our shares were we to list on one of these exchanges, and may find that local and national newspapers do not report the daily closing prices or trading volumes of our shares.

We may not know, at the time of the Allied Riser special stockholder meeting to vote on the merger, where our common stock will be listed for trading at the time of the merger. If our common stock is not listed on the NASDAQ National Market System or on any national securities exchange we do not intend to consumate the merger.

We may not be able to efficiently manage our growth, which could harm our business.

Our future largely depends on our ability to implement our business strategy and proposed expansion in order to create new business and revenue opportunities. Our results of operations will be adversely affected if we cannot fully implement our business strategy. Future expansion will place significant strains on our personnel, financial, and other resources. The failure to efficiently manage our growth could adversely affect the quality of our services, our business, and our financial condition. Our ability to manage our growth will be particularly dependent on our ability to develop and retain an effective sales force and qualified technical and managerial personnel. We may not be able to hire and retain sufficient qualified personnel. We may not be able to maintain the quality of our operations, to control our costs, to maintain compliance with all applicable regulations, and to expand our internal management, technical, information, and accounting systems in order to support our desired growth.

In addition, we must perform these tasks in a timely manner, at reasonable costs, and on satisfactory terms and conditions. Failure to effectively manage our planned expansion could have a material adverse effect on our business, growth, financial condition, results of operations, and ability to make payments on our obligations. Our expansion may involve acquiring other companies or assets. These acquisitions could divert resources and management attention and require integration with our existing operations. We cannot assure you that these acquisitions will be successful. In addition, we cannot assure you that we will be successful or timely in developing and marketing service enhancements or new services that respond to technological change, changes in customer requirements, and emerging industry standards.

Any acquisitions or investments we make could disrupt our business and be dilutive to our existing stockholders.

We intend to continue to consider acquisitions of, or investments in, complementary businesses, technologies, services, or products. Acquisitions and investments involve numerous risks, including:

- the diversion of management attention;
- difficulties in assimilating the acquired business;
- potential loss of key employees, particularly those of the acquired business;
- difficulties in transitioning key customer relationships;
- risks associated with entering markets in which we have no or limited prior experience; and
- other unanticipated costs.

These acquisitions or investments may result in dilutive issuances of equity securities; the incurrence of debt and assumption of liabilities; large integration and acquisition expenses; and the creation of intangible assets that result in significant amortization expense. Any of these factors could materially harm our business or our operating results.

We will face challenges in integrating the assets of NetRail and, as a result, may not realize the expected benefits of the NetRail asset acquisition.

On September 6, 2001, we acquired major assets and assumed certain liabilities of NetRail, Inc., a Tier-1 Internet service provider, for approximately $12 million through a sale conducted under Chapter

11 of the United States Bankruptcy Code. Tier-1 service providers traditionally operate nationwide Internet networks and exchange traffic with other Internet service providers at multiple locations. The assets include certain customer contracts and the related accounts receivable, circuits, network equipment, and settlement-free peering arrangements with other Tier-1 Internet service providers. We are in the process of integrating NetRail's facilities and traffic with our network. However, integrating the NetRail assets into the Cogent network will be a complex process. We are uncertain that the integration will be completed rapidly or that it will achieve anticipated benefits. In order for the integration to be successful, we must maintain NetRail's currently existing circuits and equipment and purchase new circuits and equipment necessary to provide service using the NetRail assets. We may not be able to successfully integrate any or all of NetRail's assets, and even if we are successful, the integration may be costly and time consuming.

We cannot assure you that we will successfully complete or expand our network.

The construction, operation, and any upgrading of our network are significant undertakings. Administrative, technical, operational, and other problems that could arise may be more difficult to address and solve due to the significant size and complexity of the planned network. In order for our business plan to succeed, it will be necessary to build out our network and related facilities in a manner that is timely and cost efficient. The timely completion of our network in a cost efficient manner, however, will be affected by a variety of factors, many of which are difficult or impossible to control, including:

cost increases related to completion of route segments and metropolitan rings;

timely performance by our suppliers;

our ability to attract and retain qualified personnel; and

shortages of materials or skilled labor, unforeseen engineering, environmental, or geological problems, work stoppages, weather interference, and floods.

The construction of our network also requires that both we and our fiber providers obtain many local rights-of-way and other permits. In some cases, we and our fiber providers must also obtain rights to use underground conduit and other rights-of-way and fiber capacity. The process of obtaining these permits and rights is time consuming and burdensome. If we or our fiber providers are unable to obtain and maintain the permits and rights-of-way needed to build out our network and related facilities on acceptable terms and on a timely basis, or if permits or rights-of-way we or our fiber providers do obtain are cancelled or not renewed, the buildout of our network could be delayed.

For these reasons, we cannot assure you that the budgeted costs of our current and future projects will not be exceeded or that these projects will commence operations within the contemplated schedules, if at all. Any significant variance from the contemplated schedules or increases in the budgeted cost of our network will materially adversely affect our business and results of operations.

Our business could suffer from a delay, reduction or interruption of deliveries from our equipment suppliers or the termination of relationships with them.

Our business could suffer from a delay, reduction or interruption of deliveries from our equipment suppliers or the termination of relationships with them. We obtain most of our optical-electronic equipment from Cisco Systems. We depend on Williams Communications for our long-haul fiber network. Metromedia Fiber Networks, Level 3, and others provide us with metropolitan dark fiber linking our national network to individual buildings. Dark fiber is the term for optical fiber that has been installed, but does not include the optical-electronic terminal equipment needed to transmit or receive data, which we install, and which is provided to us by third-party suppliers. Such third-party suppliers are responsible for additional amounts of conduit, computers, software, switches/routers, and

related components that we assemble and integrate into our network. Any reduction in or interruption of deliveries from our equipment suppliers, especially Cisco Systems, Metromedia Fiber Networks, Level 3, or Williams Communications could delay our plans to complete our network and install in-building networks, impair our ability to acquire or retain customers, and harm our business generally. Historically, the metropolitan dark fiber industry has encountered delays in delivering its products. Our suppliers have encountered this and, as a result, we have experienced increasing delays in obtaining metropolitan dark fiber from them. This has resulted in, and could continue to result in, a delay in extending our network to end user locations and our ability to service customers. We are working to locate alternative fiber sources and we may construct certain portions ourselves in order to complete our business plan on a timely basis. In addition, the price of the equipment and other supplies we purchase may substantially increase over time, increasing the costs we pay in the future. It could take a significant period of time to establish relationships with alternative suppliers for each of our technologies and substitute their technologies into our networks. If any of these relationships are terminated or a supplier fails to provide reliable services or equipment and we are unable to reach suitable alternative arrangements quickly, we may experience significant delays and additional costs. If that happens, our business could be materially adversely affected.

Our rights to the use of the dark fiber that make up our network may be affected by the financial health of our fiber providers.

We do not have title to the dark fiber that makes up the foundation of our network. Our interests in the dark fiber that makes up our network take the form of long-term leases or indefeasible right of use agreements, known as IRUs. A bankruptcy or financial collapse of one of our fiber providers could result in a loss of our rights under our long-term lease agreements or IRUs with such provider, which in turn could have a negative impact on the integrity of our network and ultimately on our results of operations. If we lost rights under our IRU agreements, we may be required to expend additional funds for maintenance of the fiber, directly fund right of way obligations, or even purchase replacement fiber from another provider if it exists. There may be geographic regions in which alternate providers do not exist. This could require us to suspend operations to some customers or construct our own fiber connections to those customers. There has been increasing financial pressure on some of our fiber providers as part of the overall weakening of the telecommunications market over the past twelve to eighteen months. Although the largest supplier of our metropolitan fiber networks, Metromedia Fiber Networks, recently announced that it has secured additional financing and that it believes this funding will enable it to complete its business plan, we do not know the terms and conditions of the funding or if it will in fact be sufficient for Metromedia Fiber Networks' current and future needs. Another supplier of metropolitan fiber, ACSI Network Technologies, Inc., already has filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. In the case of a bankruptcy or financial collapse by one of our fiber providers, our rights under our dark fiber agreements remain unclear, although to date there has been no interruption of service with the ACSI fiber. In particular, to our knowledge, the rights of the holder of an IRU in strands of dark fiber have never been addressed by the judiciary at the state or federal level in bankruptcy.

We often are limited in choices for metropolitan fiber suppliers.

In some of our target markets there is only one established carrier available to provide the necessary connection. This increases our costs and makes it difficult to obtain sufficient dark fiber. Sufficient dark fiber may not be readily available from third parties at commercially reasonable rates, if at all. Our failure to obtain sufficient dark fiber could result in an inability to provide service in certain buildings and service interruptions, which could in time lead to loss of customers and damage to our reputation.

Our business plan cannot succeed unless we continue to obtain and maintain license agreements with building owners and managers.

Our business depends upon our ability to install in-building networks. This requires us to enter into access agreements with building owners or managers allowing us to install our in-building networks and provide our services in the buildings. These agreements typically have terms of five to ten years. We expect to need to enter into additional access agreements for the foreseeable future, and may need to amend some of the current agreements to allow us to offer all of the services contemplated by our current business plan. The failure of building owners or managers to grant, amend, or renew access rights on acceptable terms, or any deterioration in our existing relationships with building owners or managers, could harm our marketing efforts and could substantially reduce our potential customer base. 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 carriers under its jurisdiction from entering into exclusive arrangements with owners of multi-tenant commercial office buildings, these regulations do not require building owners to offer us access to their buildings. Building owners or managers may decide not to permit us to install our networks in their buildings or may elect not to renew or amend our access agreements. The failure to obtain or maintain these agreements would reduce our revenues and we might not recover our infrastructure costs.

We will need to obtain or construct additional building laterals to connect buildings to our network.

In order to connect a building to our network, we must obtain or construct lateral fiber extensions from our metropolitan ring to the building to which we intend to provide our Internet service. To date, we have relied exclusively on third parties for lateral connections. While we intend to continue using third parties for lateral connections in the future, we also plan to construct or fund most laterals on our own or in ventures with third parties. The availability of such lateral connections from third parties is dependent on many factors, including but not limited to the:

- financial health of those lateral providers and their willingness to offer laterals to us on acceptable terms and conditions;

- ability of those lateral providers to construct, deliver, and connect such laterals, which depends, in part, on their ability to obtain and maintain the necessary franchise rights and permits to supply laterals, construct such laterals in a timely and correct manner, and splice such laterals into our network rings to enable optical connections; and

- willingness of the various municipalities in which such laterals are located to allow the construction of fiber laterals.

Our ability to construct or fund some laterals on our own is also dependent on these factors. If any of these factors are not fulfilled, we may not be able to obtain some of the desired lateral connections to buildings, which could substantially reduce our customer base and our ability to fulfill our business plan.

We must make capital expenditures before generating revenues, which may prove insufficient to justify those expenditures.

Prior to generating revenues, we must incur significant initial capital expenditures. Our expenditures will vary depending on whether we encounter any construction-related difficulties or difficulties in acquiring rights-of-way or other permits. After initial installation of our network, our capital expenditures continue to grow based on the extent to which we add customers within a building. We may not be able to recoup all of our expenditures.

Our success depends on growth in the use of the Internet, and on the willingness of customers to buy our Internet service.

Our future success depends in large part on growth in the number of people who use the Internet as well as growth in the number of ways people use the Internet. Specifically, we are dependent on the growth of the demand for high-speed Internet service, which is unproven and may grow less than the demand for communications services generally, or not at all. Furthermore, our own growth rate may not match the growth rate of the high-speed Internet service market as a whole.

Our success also depends on rapid growth in sales of our particular Internet services offerings. This growth depends, in part, on customers trusting us to deliver the services in a timely and efficient manner, and that we will continue to operate for at least as long as the life of any contract between the two of us. This trust may be difficult to establish because there has been a substantial downturn in the telecommunications industry, leading to many bankruptcies and closures of competing Internet service providers. Some of these closures required the customers of the closing Internet service provider to find alternative providers on very short notice. In light of these developments, there may be an increasing desire on the part of Internet service customers to only do business with telecommunications providers who have a long operating history and are amongst the biggest providers in the industry. Cogent's short operating history and small size could put it at a disadvantage in competing with such established providers.

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

We regard certain aspects of our products, services, and technology as proprietary and attempt to protect them with patents, copyrights, trademarks, trade secret laws, restrictions on disclosure, and other methods. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our products, services, or technology without authorization, or to develop similar technology independently.

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 competition from many communications providers with significantly greater financial resources, well-established brand names, larger customer bases, and diverse strategic plans and technologies. Many of these competitors have longer operating histories and more established relationships in the industry than we do. Intense competition has led to declining prices and margins for many communications services. We expect this trend to continue as competition intensifies in the future. We expect significant competition from traditional and new communications companies, including local, long distance, cable modem, Internet, digital subscriber line, fixed and mobile wireless, and satellite data service providers, some of which are described in more detail below.

If these potential competitors successfully focus on our market, we may face intense competition harmful to our business. In addition, we may also face severe price competition for building access rights, which could result in higher sales and marketing expenses and lower profit margins.

In-building competitors. Some competitors, such as Cypress Communications, XO Communications, Intellispace, Eureka, Everest Broadband, and eLink have gained access to office buildings in our target markets and are attempting to gain access to additional buildings in these and other markets. To the extent these competitors are successful, we may face difficulties

in building our networks and marketing our services within some of our target buildings. Because our agreements to use utility shaft space within buildings are, to date, non-exclusive, owners of such buildings can give similar rights to our competitors. Certain competitors already have rights to install networks in some of the buildings in which we have rights to install our networks. It is not clear whether it will be profitable for two or more different companies to operate networks within the same building. Therefore, it is critical that we build our networks in our target buildings quickly, before our competitors do so. If a competitor installs a network in a building in which we operate, there will likely be substantial price competition.

Local telephone companies. Incumbent telephone companies, including regional Bell operating companies such as Verizon and BellSouth, have several competitive strengths which may place us at a competitive disadvantage. These competitive strengths include:

- an established brand name and reputation;
- significant capital to deploy broadband data network equipment rapidly;
- ability to offer higher-speed data services through digital subscriber line technology;
- their own inter-building connections; and
- ability to bundle digital data services with their voice services to achieve economies of scale in servicing customers.

Competitive local telephone companies. Competitive local telephone companies often have broadband inter-building connections, market their services to tenants of large and medium-sized buildings, and selectively build in-building facilities.

Long distance companies. We will face strong competition from long distance companies. Many of the leading long distance carriers, including AT&T, MCI WorldCom, and Sprint, could begin to build their own in-building voice and data networks. The newer national long distance carriers, such as Level 3, Qwest, and Williams Communications, are building and managing high speed fiber-based national voice and data networks, partnering with Internet service providers, and may extend their networks by installing in-building facilities and equipment.

Fixed wireless service providers. We may lose potential customers to fixed wireless service providers. Fixed wireless service providers are communications companies that can provide high-speed communications services to customers using microwave, laser, or other facilities or satellite earth stations on building rooftops. Some of these providers have targeted small and medium-sized business customers and have a business strategy that is similar to ours. These providers include MCI Worldcom, Teligent, XO Communications, Terabeam, Sprint, and Winstar.

Internet, digital subscriber line, and cable modem service providers. The services provided by Internet service providers, digital subscriber line companies, and cable-based service providers can be used by our potential customers instead of our services. Traditional Internet service providers, such as Concentric Networks and EarthLink, provide Internet access to residential and business customers, generally using the existing communications infrastructure. Digital subscriber line companies and/or their Internet service provider customers, such as AT&T and Covad, typically provide broadband Internet access using digital subscriber line technology, which enables data traffic to be transmitted over standard copper telephone lines at much higher speeds than these lines would normally allow. Cable-based service providers, such as Excite@Home, RCN Telecom Services, and Time Warner AOL and its Road Runner subsidiary, also provide broadband Internet access. These various providers may also offer traditional or Internet-based voice services to compete with us.

Other high-speed Internet providers. We may also lose potential customers to other high-speed Internet service providers who offer similar high-speed Internet services. These include Yipes and Telseon, and are often characterized as Ethernet metropolitan access networks. These providers have targeted a similar customer base and have a strategy similar to ours.

Our failure to acquire, integrate, and operate new technologies could harm our competitive position.

The telecommunications industry is characterized by rapid and significant technological advancements and the introduction of new products and services. We do not possess significant intellectual property rights with respect to the technologies we use, and we are dependent on third parties for the development of and access to new technology. In addition, we own the equipment we use to provide our services and we will have long-term leases or indefeasible rights of use attached to the fiber optic networks that will constitute our network. Therefore, technological changes that render our equipment out of date, less efficient, or more expensive to operate than newer equipment could cause us to incur substantial increases in capital expenditures to upgrade or replace such equipment.

Additionally, there currently are other technologies that provide more capacity and speed than dial-up connections and can be used instead of our broadband data services, including digital subscriber line technology, cable modems, wireless technology, and integrated services digital networks. Furthermore, these technologies may be improved and other new technologies may develop that provide more capacity and speed than the broadband data technology we typically employ.

Our connection to the Internet requires us to obtain and maintain relationships with other providers.

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 obtain and maintain relationships with other such providers and incur the necessary capital costs to locate our equipment and connect our network at these various interconnection points. Some of these connections are made through the purchasing of transit capacity at negotiated rates, which gives us access to a provider and other networks to which that provider is connected. In addition, in some instances we have minimum and maximum volume commitments to receive the negotiated rates. If we fail to meet the minimum, or exceed the maximum, volume commitments, our rates and costs may rise.

Another source of connection to the Internet is peering arrangements. 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 establishment and maintenance of peering relationships is necessary to avoid the higher costs of transit capacity and in order to maintain high network performance capacity. Our business plan depends on our ability to avoid transit costs in the future as our network expands. In that regard, we are attempting a number of initiatives to lower our transit costs. We are seeking more settlement-free peering arrangements such as those that were acquired in the NetRail asset acquisition. We expect that these initiatives will enable us to reduce our transit costs but there is no guarantee that such efforts will be successful. Peering relationships are not subject to regulation, and may change in terms and conditions. If we are not able to maintain and increase our peering relationships, we may not be able to provide our customers with high performance and affordable services.

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 proposed network, it may be possible that data will be lost or distorted. Delays in data delivery may cause significant losses to a customer using our network. Our

network may also contain undetected design faults and software bugs that, despite our testing, may not be discovered in time to prevent harm to our network. The failure of any equipment or facility on the network could result in the interruption of customer service until we effect necessary repairs or install replacement equipment. Network failures, delays, and errors could also result from natural disasters, power losses, security breaches, and computer viruses. In addition, some of our customers are, at least initially, only served by partial fiber rings, increasing the risk of service interruption. These failures, faults, or errors could cause delays or service interruptions, expose us to customer liability, or require expensive modifications that could have a material adverse effect on our business.

As an Internet access provider, we may be vulnerable to unauthorized access or we may incur liability for information disseminated through our network.

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

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

Legislation and government regulation could adversely affect us.

We believe the enhanced services we provide today are not subject to substantial regulation by the FCC or the state public utilities commissions. Federal and state commissions exercise jurisdiction over providers of basic telecommunications services. However, enhanced service providers are currently exempt from federal and state regulations governing providers of basic telecommunications services, including the obligation to pay access charges and contribute to the universal service fund. Changes in regulation or new legislation may increase the regulation of our current enhanced services. Such changes in the regulatory environment are difficult for us to predict and could affect our operating results by increasing competition, decreasing revenue, increasing costs, or impairing our ability to offer services.

If we decide to provide voice and other basic telecommunications services we may be unable to successfully respond to regulatory changes. We will become subject to regulation by the FCC and state agencies in the event we decide to offer non-enhanced voice and other basic telecommunications services and may become subject to regulation if we offer voice services over the Internet. Complying with these regulatory requirements may be costly.

Regulation of access to office buildings could negatively affect our business. FCC rules prohibit common carriers from entering into contracts that restrict the right of commercial multi-unit property owners to permit any other common carrier to access and serve the property's commercial tenants. While we believe that this rule does not apply to us, we compete against common carriers in providing some of our services and this rule could make it easier for an increased number of such common carrier competitors to gain access to buildings where we provide service. The FCC declined to adopt rules mandating that commercial multi-unit property owners permit access to all carriers on a nondiscriminatory basis, but it is continuing to consider this and other issues in future phases of this proceeding. Bills have also been introduced in

Congress regarding the same topic but Congress has yet to act. Some of the issues being considered in these developments include requiring real estate owners to provide utility shafts access to telecommunications carriers, and requiring some telecommunications providers to provide access to other telecommunications providers. We do not know whether or in what form these proposals will be adopted.

If our interpretation of regulations applicable to our operations is incorrect, we may incur additional expenses or become subject to more stringent regulation.

Some of the jurisdictions where we provide services have little, if any, written regulations regarding our operations. In addition, the written regulations and guidelines that do exist in a jurisdiction may not specifically address our operations. If our interpretation of these regulations and guidelines is incorrect, we may incur additional expenses to comply with additional regulations applicable to our operations.

Our affiliates own more than 80% of the outstanding voting stock, and thus will control all matters requiring a stockholder vote and, as a result, could prevent or delay any strategic transaction.

Our existing directors, executive officers, and greater-than-five-percent stockholders and their affiliates, in the aggregate, beneficially own more than 80% of the outstanding shares of voting stock and will continue to own more than 80% of the outstanding shares of voting stock after the merger. If all of these stockholders were to vote together as a group, they would have the ability to exert significant influence over our board of directors and its policies. For instance, these stockholders would be able to control the outcome of all stockholders' votes, including votes concerning director elections, charter and bylaw amendments, and possible mergers, corporate control contests, and other significant corporate transactions including any going private transaction. Although we do not foresee a change of control or going private transaction at the present time, the concentration of our stock ownership could have the effect of preventing or delaying a change of control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could harm the market price of our common stock or prevent our stockholders from realizing a takeover premium over the market price for their shares of common stock.

Anti-takeover provisions could prevent or delay a change of control.

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws and Delaware law could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. These provisions include the "staggered" nature of our board of directors which results in directors being elected for terms of three years and the ability of the preferred stockholders to designate four of our seven directors. These provisions may have the effect of delaying, deferring, or preventing a change in our control, impeding a merger, consolidation, takeover, or other business combination, which in turn could preclude our stockholders from recognizing a premium over the prevailing market price of the common stock.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus contains certain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance, and business of each of Cogent and Allied Riser, as well as certain information relating to the merger, including, without limitation:

- statements relating to the benefits of the merger;
- statements with respect to various actions to be taken or requirements to be met in connection with completing the merger or integrating Cogent and Allied Riser after the merger;
- statements relating to revenue, income, and operations of the combined company after the merger; and
- statements preceded by, followed by, or that include the words "believes," "expects," "anticipates," "estimates," or similar expressions.

These statements are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. The following factors, among those discussed in the "Risk Factor" section and others, could cause actual results to differ materially from those described in the forward-looking statements:

- expected benefits from the merger may not be fully realized or realized within the expected time frame;
- revenues following the merger may be lower than expected;
- the combined company may require additional capital, but be unable to acquire the necessary financing;
- the trading price of Cogent's common stock may be lower than anticipated;
- costs or difficulties related to completing the merger and, following the merger, to the integration of the businesses of Allied Riser and Cogent, may be greater than expected;
- Allied Riser may be unable to manage its operations in a cost effective manner prior to the merger;
- the use of cash for early retirement of commitments and contingencies, interest payments on any of Allied Riser's outstanding convertible subordinated notes, or the repurchase of any debt securities may materially reduce the amount of cash otherwise available to the combined entity for its operations;

general economic conditions in the jurisdictions in which Allied Riser and Cogent are doing business may be less favorable than expected;

legislative or regulatory changes, including changes in communications regulation, may adversely affect the businesses in which Allied Riser and Cogent are engaged;

changes may occur in the securities or capital markets;

changes may occur in technology and competitive developments; and

other economic, business, competitive, and/or regulatory factors may affect Cogent and Allied Riser's business generally as described in Allied Riser's filings with the SEC.

ALLIED RISER SPECIAL MEETING

General

This document is first being mailed by Allied Riser to the holders of Allied Riser common stock on or about January 8, 2002, and is accompanied by the notice of the Allied Riser special meeting to be held at the offices of Allied Riser located at 1700 Pacific Avenue, Suite 400, Dallas, Texas 75201, on January 31, 2002, at 9:00 a.m., local time, and at any adjournments or postponements of the Allied Riser special meeting.

Matters to be Considered

The purpose of the Allied Riser special meeting is:

(1) to consider and vote on a proposal to adopt the merger agreement and approve the merger; and

(2) to consider any other matters that may properly come before the Allied Riser special meeting.

Allied Riser stockholders also may be asked to vote upon a proposal to adjourn or postpone the Allied Riser special meeting. Allied Riser could use any adjournment or postponement of the Allied Riser special meeting for the purpose, among others, of allowing additional time for soliciting additional votes to adopt the merger agreement and approve the merger.

Proxies

The Allied Riser board of directors is soliciting your proxy to give you the opportunity to vote at the Allied Riser special meeting. When you deliver a valid proxy, the shares represented by that proxy will be voted in accordance with your instructions.

You may grant a proxy by:

(1) signing and mailing your proxy card;

(2) calling a toll-free telephone number and following the recorded instructions; or

(3) transmitting your voting instructions over the Internet by going to the address listed on your proxy card.

If you are a holder of record, or if your shares are held in street name and you have a valid proxy from your broker, you also may cast your vote in person at the meeting.

Mail

To grant your proxy by mail, please complete your proxy card, and sign, date and return it in the enclosed, postage-paid envelope. To be valid, a returned proxy card must be signed and dated. If you vote by telephone or the Internet, do not mail back your proxy card.

Telephone

You may use a toll-free telephone number listed on your proxy card to grant your proxy. You must have your proxy card ready and:

(1) dial the toll-free number;
(2) enter the control number located on your proxy card; and
(3) follow the recorded instructions.

Internet

You may transmit your voting instructions over the Internet by going to the web-site address listed on your proxy card. You will be asked to enter the control number you will find on your proxy card.

Then follow the instructions. You may also indicate if you would like to receive future proxy materials through the Internet. As with all Internet usage, the user must pay all access fees and telephone charges.

In Person

If you attend the Allied Riser special meeting in person, you may vote your shares by ballot at the Allied Riser special meeting if you are a holder of record, or if your shares are held in street name and you have a valid proxy from your broker.

You may revoke your proxy at any time prior to the closing of the polls at the Allied Riser special meeting by delivering to the Secretary of Allied Riser a signed notice of revocation or a later-dated signed proxy or by attending the Allied Riser special meeting and voting in person. Attendance at the Allied Riser special meeting will not in itself constitute the revocation of a proxy.

Written notices of revocation and other communications with respect to the revocation of Allied Riser proxies should be addressed to Corporate Secretary, Allied Riser Communications Corporation, 1700 Pacific Avenue, Suite 400, Dallas, TX 75201. All shares represented by valid proxies received pursuant to this solicitation, and not revoked before they are exercised, will be voted in the manner specified in the proxies.

If you make no specification on your proxy, your proxy will be voted in favor of the adoption of the merger agreement.

The Allied Riser board of directors currently is unaware of any matters, other than the matters described in this document, that may be presented for action at the Allied Riser special meeting. If other matters do properly come before the Allied Riser special meeting, however, it is intended that shares represented by proxies will be voted, or not voted, by the individuals named in the proxies in their discretion. No proxy that is voted against adoption of the merger agreement and approval of the merger will be voted in favor of any adjournment or postponement of the Allied Riser special meeting for the purpose of soliciting additional proxies for such adoption.

Solicitation of Proxies

Allied Riser will bear the entire cost of soliciting proxies from Allied Riser stockholders, except that each of Allied Riser and Cogent has agreed to pay one-half of the costs of filing, printing, and mailing this proxy statement/prospectus and related proxy materials. In addition to the solicitation of proxies by mail, Allied Riser will request that banks, brokers, and other record holders send proxies and proxy materials to the beneficial owners of Allied Riser common stock held by them and secure their voting instructions if necessary. Allied Riser will reimburse those record holders for their reasonable expenses in so doing. Allied Riser has also made arrangements with Georgeson Shareholder to assist it in soliciting proxies, and has agreed to pay customary fees plus expenses for those services. Allied Riser also may use several of its regular employees, who will not be specially compensated, to solicit proxies from Allied Riser stockholders, either personally or by telephone, telegram, facsimile, or special delivery letter.

Record Date and Voting Rights

In accordance with the provisions of Delaware law, Allied Riser's bylaws, and the rules of the Nasdaq National Market, Allied Riser has fixed January 4, 2002, as the record date for determining those Allied Riser stockholders entitled to notice of and to vote at the Allied Riser special meeting. Accordingly, only Allied Riser stockholders of record at the close of business on the record date will be entitled to notice of and to vote at the Allied Riser special meeting. At the close of business on the record date, there were 62,002,249 shares of Allied Riser common stock outstanding held by 567 holders of record. The presence, in person or by proxy, of a majority of shares of Allied Riser common stock outstanding and entitled to vote on the record date is necessary to constitute a quorum at the

Allied Riser special meeting. Each share of Allied Riser common stock outstanding on the record date entitles its holder to one vote.

Shares of Allied Riser common stock held by persons attending the Allied Riser special meeting but not voting, and shares of Allied Riser common stock for which Allied Riser has received proxies but with respect to which holders of those shares have abstained from voting, will be counted as present at the Allied Riser special meeting for purposes of determining the presence or absence of a quorum for the transaction of business at the Allied Riser special meeting, but will have the same effect as votes cast at the Allied Riser special meeting against adoption of the merger agreement and approval of the merger. Brokers that hold shares of Allied Riser common stock in nominee or street name for customers who are the beneficial owners of those shares are prohibited from giving a proxy to vote shares held for those customers on the matters to be considered and voted upon at the Allied Riser special meeting without specific instructions from those customers. These "broker non-votes" will be counted for purposes of determining whether a quorum exists.

Under applicable Delaware law, Allied Riser's certificate of incorporation and Allied Riser's bylaws, adoption of the merger agreement and approval of the merger requires the affirmative vote of the holders of a majority of the shares of Allied Riser common stock outstanding and entitled to vote. Because adoption of the proposal requires the affirmative vote of a majority of the shares of Allied Riser common stock outstanding and entitled to vote thereon, abstentions and broker non-votes have the same effect as a vote against adoption of the merger agreement and approval of the merger.

The Allied Riser board of directors urges Allied Riser stockholders to complete, date, and sign the accompanying proxy card and return it promptly in the enclosed, postage-paid envelope, or transmit your voting instructions over the Internet or by telephone.

As of the Allied Riser record date, directors and executive officers of Allied Riser and their affiliates beneficially owned 12,526,789 shares of Allied Riser common stock (including shares held in Allied Riser stock purchase and equity incentive plans and 705,347 shares subject to Allied Riser stock options exercisable within 60 days). As of the Allied Riser record date, shares held by directors and executive officers of Allied Riser and their affiliates entitle them to exercise approximately 20 percent of the voting power of the Allied Riser common stock entitled to vote at the Allied Riser special meeting. As of the Allied Riser record date, directors and executive officers of Cogent owned no shares of Allied Riser common stock.

The following affiliates, significant stockholders and related parties of Allied Riser holding approximately 26% of the outstanding shares of Allied Riser common stock have agreed to vote to adopt the merger agreement and to approve the merger: Norwest Venture Partners VII, LP, Telecom Partners II, Telecom Management II, L.L.C., Stephen W. Schovee, William J. Elsner, Crescendo World Fund, LLC, Crescendo Ventures World Fund, LLC, Eagle Venture WF, LLC, Crescendo III, L.P., Crescendo Ventures III, LLC, Crescendo III Executive Fund, L.P., Crescendo Ventures III and Crescendo III GbR, LLC. No other director, officer or affiliate of Allied Riser has indicated an intention to vote either for or against the adoption of the merger agreement and the approval of the merger.

Additional information with respect to beneficial ownership of Allied Riser common stock by directors and executive officers of Allied Riser is included herein. See "Information about Allied Riser Security Ownership of Directors and Executive Officers."

Recommendation of the Allied Riser Board of Directors

The Allied Riser board of directors has unanimously declared the merger agreement, as amended, to be advisable and approved the merger agreement and the merger. The Allied Riser board of directors believes that the merger is in the best interests of Allied Riser's stockholders and unanimously recommends that Allied Riser stockholders vote "FOR" adoption of the merger agreement and approval of the merger. See, "The Merger Recommendation of the Allied Riser Board of Directors; Allied Riser's Reasons for the Merger."

THE MERGER

General

Each of the Allied Riser board of directors and the Cogent board of directors has approved the merger agreement and the merger. Cogent will acquire Allied Riser under a merger agreement providing that a wholly owned subsidiary of Cogent that we call the merger subsidiary will be merged with and into Allied Riser. As a result of the merger, Allied Riser will become a wholly owned subsidiary of Cogent.

Background of the Merger

In July 1997, prior to founding Cogent, Dave Schaeffer, the chief executive officer and founder of Cogent, had a meeting with Todd Doshier, a founder of Allied Riser. Mr. Schaeffer was introduced to Mr. Doshier through a mutual friend, Frank Kozel, the former Chief Technology Officer of MCI. Mr. Kozel was an early investor in Allied Riser and believed either Mr. Schaeffer or the company with which he was associated, Pathnet (a competitive telecom services company) might wish to invest in Allied Riser, although that potential investment never occurred. At this meeting, Mr. Doshier presented the initial Allied Riser plan to Mr. Schaeffer. This plan entailed the construction of in-building fiber-optic distribution systems for sale or lease to other carriers. Over the next several months, Mr. Doshier and Mr. Schaeffer had several informal phone conversations to discuss the development of Allied Riser's business.

Mr. Schaeffer founded Cogent in August 1999. Over the next two years, Mr. Schaeffer continued to monitor the development of Allied Riser's business, including its initial public offering in October 1999.

In April 2000, Mr. Schaeffer met David Crawford, the then chief executive officer of Allied Riser, in an investor panel discussion. Mr. Schaeffer and Mr. Crawford had two telephone conversations exploring possible opportunities between the two companies. At that time, they concluded that there was no immediate opportunity for the two companies to work together because of the competitive environment. Over the next 15 months, Cogent continued to monitor the progress of Allied Riser and was aware of the change from the primary provision of retail telecommunication services to the primary provision of wholesale in-building facilities to other telecommunication providers that Allied Riser was undertaking in light of the difficult market conditions for competitive broadband communications service providers.

During the third quarter of 2000, Allied Riser implemented certain cost-cutting initiatives, including a reduction in force and the investigation of possible strategic alternatives for the company. Allied Riser consulted its financial advisors and other strategic advisors regarding a variety of possible options for the company. During the fourth quarter of 2000 and into the first quarter of 2001, Allied Riser had intermittent discussions with a third party regarding a possible combination of the third party and Allied Riser. The discussions were terminated when the parties could not agree on terms of a transaction. Following termination of these discussions, Allied Riser continued its efforts to reduce costs and began to investigate the possibility of a financial restructuring, including the purchase of its 7.50% convertible subordinated notes due 2007. On June 12, 2001, Allied Riser announced the completion of a tender offer, accepting for purchase $26,400,000 in aggregate principal amount of the notes, representing approximately 17.6% of the $150,000,000 aggregate principal amount of the notes outstanding prior to the tender offer.

In July 2001, Allied Riser retained Houlihan Lokey Howard & Zukin to assist Allied Riser in further evaluating possible strategic alternatives. On July 12, 2001 Houlihan Lokey representatives made a presentation to the Board of Directors of Allied Riser regarding Houlihan Lokey's analysis of possible strategic alternatives, including the purchase of additional outstanding notes, divestitures of

Allied Riser's unprofitable operations, and realization of tax efficiencies. At approximately the same time Allied Riser began discussions with its vendors to restructure Allied Riser's obligations and reduce its liabilities. On July 24, 2001, Allied Riser announced that it was suspending its retail business and refocusing its resources on providing wholesale in-building facilities and announced that it would terminate the employment of approximately 75% of its remaining workforce over the following 60 to 75 days.

In contemplating additional alliances and partnerships, Cogent's management team decided to explore a potential strategic relationship with Allied Riser. On August 4, 2001, following a preliminary call to Mr. Dinsmore by Mr. Schaeffer suggesting that they meet, Cogent and Allied Riser entered into a confidentiality agreement relating to the discussions of a potential merger. On August 7, 2001, Mr. Schaeffer and Mr. Dinsmore again spoke by telephone and discussed a possible strategic alliance and potential structural scenarios.

On August 8, 2001, Mr. Schaeffer met with Mr. Dinsmore in Dallas and continued their discussions regarding the business strategies and objectives of Cogent and Allied Riser, the condition of each company and the possibility of a combination of Cogent and Allied Riser. A stock-for-stock merger proposal was discussed in a meeting between Mr. Schaeffer and Mr. Dinsmore on August 10, 2001 in Dallas. During the discussion on August 10, Mr. Dinsmore advised Mr. Schaeffer of the importance of receipt by Allied Riser's stockholders of Cogent common stock with a value in excess of the recent market capitalization of Allied Riser and they discussed the previously anticipated issuance by Cogent of preferred stock in a separate private placement. Messrs. Dinsmore and Schaeffer discussed an equity valuation of Allied Riser of approximately $20 million. Mr. Schaeffer and Mr. Dinsmore agreed that the merger proposal and equity valuation had merit and that each party would discuss the opportunity with his respective board.

On August 10, 2001, the directors of Allied Riser met by telephone conference call and Mr. Dinsmore advised them of the contact by Mr. Schaeffer and the possible acquisition of Allied Riser by Cogent. Mr. Dinsmore described the discussions with Mr. Schaeffer and outlined for the Allied Riser board the general parameters of the proposed transaction, including use of a stock-for-stock transaction to effect the merger, Cogent's plan to raise additional funds through a private placement of preferred stock prior to closing the merger, and the fact that the exchange ratio should be based on a $20 million equity valuation for Allied Riser and a valuation of Cogent equal to $100 million plus the amount raised in its planned preferred stock offering. After a discussion by the directors of Cogent's proposal, the board authorized senior management of Allied Riser to conduct a due diligence review of Cogent and to negotiate a business combination with Cogent with the conditions that no decision to pursue such a transaction could be made without the approval of the directors and that Mr. Dinsmore report to the board any developments that resulted from such negotiations.

Upon initial consultation with Cogent's board members, Cogent management believed additional due diligence was warranted. On August 11, 2001, management of both companies agreed to conduct due diligence reviews of each other.

On August 12, 2001, a meeting between Allied Riser and Cogent was held at Cogent's offices in Washington, D.C. This meeting included Michael Carper, general counsel of Allied Riser, and Quen Bredeweg, chief financial officer of Allied Riser; Amit Patel and Andrew Morrow from Houlihan Lokey Howard & Zukin; Helen Lee, chief financial officer of Cogent, and Mr. Schaeffer. During this meeting, certain due diligence items were exchanged and discussed and the participants explored how the businesses might complement each other and how to structure the transaction. Over the next several days, Mr. Schaeffer and Mr. Dinsmore had a series of telephonic discussions that concluded with the determination that both companies should move forward with the proposed combination. Cogent engaged Latham & Watkins to assist in these matters, Allied Riser retained Jones, Day, Reavis & Pogue to assist Allied Riser in this transaction.

On August 13, 2001, the Allied Riser board met again by telephone conference call to discuss events since the previous meeting of directors. Mr. Dinsmore described the principal issues that had been raised in the discussions with Cogent, including the proposed financial terms of the combination and the receipt by Allied Riser stockholders of Cogent common stock valued at approximately $16.0 million, the current financial condition of each of Allied Riser and Cogent, the effects on Allied Riser of a business combination with Cogent, and the valuation of Cogent, including a review of Cogent's financial statements for the six months ended June 30, 2001, and the anticipated issuance by Cogent, prior to consummation of the proposed transaction with Allied Riser, of an aggregate of $108.6 million of its Series C preferred stock. The Board also discussed other possible strategic alternatives that might be available to Allied Riser. At the conclusion of the meeting, the directors approved further discussions by Allied Riser's senior management with representatives of Cogent.

On August 14 and 15, 2001, representatives of Cogent met with Allied Riser representatives in Allied Riser's offices in Dallas, Texas and conducted additional due diligence review regarding Allied Riser.

During the period between August 16, 2001 and August 19, 2001, Allied Riser and its financial and legal advisors completed a due diligence review of Cogent and its operations and financial condition. On August 18 and 19, 2001, senior executives of both Cogent and Allied Riser and their respective legal advisors met at Latham & Watkins in Washington, D.C. and continued to negotiate the terms of a definitive agreement.

On August 20, 2001, the Allied Riser board met again by telephone conference call and Mr. Dinsmore discussed with the directors the retention of Houlihan Lokey as Allied Riser's financial advisor in connection with the merger. The directors authorized management to finalize the agreement with Houlihan Lokey. Mr. Dinsmore advised the directors with respect to the terms of the merger agreement being negotiated with Cogent. Representatives of Jones, Day, Reavis & Pogue also advised the directors regarding certain legal matters. The board discussed the proposed transaction, which contemplated a closing date of December 31, 2001, the issuance by Cogent of at least $65 million of its Series C preferred stock, a lockup agreement with each of Norwest Venture Partners VII, LP, Telecom Partners II, and Crescendo World Fund, LLC, significant stockholders of Allied Riser, and the receipt of third party consents. The directors also discussed potential impediments to consummation of the merger, including the possible delisting of Allied Riser's stock by the Nasdaq, the difficulties faced by Cogent in a successful listing of its stock upon consummation of the proposed transaction, and the negotiation by Cogent of a new credit facility.

On August 20, 2001, a special meeting of the board of directors of Cogent was held to discuss this opportunity. Mr. Schaeffer and Ms. Lee discussed the progress of the negotiations with Allied Riser and presented an analysis of the proposed combination from a financial point of view.

During the period between August 20, 2001 and August 27, 2001, representatives of Allied Riser and Cogent continued to discuss the terms of the merger. Allied Riser and Cogent agreed that the merger structure should be modified from the draft merger agreement discussed with the respective boards of directors on August 20, 2001, in which Cogent was to merge directly into Allied Riser, with Allied Riser surviving, to a reverse triangular merger in which a new subsidiary of Cogent, formed solely for the purpose of the merger, would merge with and into Allied Riser, with Allied Riser surviving as a wholly-owned subsidiary of Cogent, and with the receipt by Allied Riser stockholders of registered shares of Cogent common stock in exchange for their shares of Allied Riser common stock. Allied Riser and Cogent determined that the new merger structure would permit both Cogent and Allied Riser to survive, thereby avoiding the need to assign certain commercial agreements and licenses from one company to the other, while still qualifying as a reorganization for tax purposes. The merger agreement was modified to reflect the new terms.

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Following extensive discussions and after five teleconferences during the period between August 20, 2001 and August 27, 2001, the Cogent board of directors unanimously approved the merger agreement and the merger on August 27, 2001.

On August 27, 2001 the Allied Riser board met by telephone conference call to discuss the status of the proposed merger agreement and to be advised by Houlihan Lokey as to its financial analysis of the proposed merger. After a presentation by representatives of Houlihan Lokey, the directors discussed issues raised by the Houlihan Lokey presentation including the likelihood that Allied Riser could successfully (1) restructure its debt and capital lease obligations and (2) implement its business plan. To permit due consideration of the merger, the directors requested additional information from Houlihan Lokey regarding the ability of the combined entity to meet its obligations and the value available to various constituencies of Allied Riser upon consummation of the proposed merger with Cogent. The board adjourned the meeting with agreement to reconvene the following day. On August 28, 2001, the Allied Riser directors met by telephone conference call and representatives of Houlihan Lokey made a presentation regarding the financial analysis they had performed with respect to the possible business combination with Cogent. Legal counsel advised the directors with respect to certain legal matters and changes in the proposed terms of the merger agreement since the board's meeting of August 20. The directors then discussed the proposed transaction and asked questions of the legal and financial advisors. At the conclusion of the discussions, a representative of Houlihan Lokey orally informed the Allied Riser board, which oral advice was subsequently confirmed in writing, that in Houlihan Lokey's opinion, the merger and exchange of Allied Riser shares as provided in the merger agreement were fair to the Allied Riser stockholders from a financial point of view, and fair to the Allied Riser creditors (on an aggregate basis) from a financial point of view. At that point, the representatives of Houlihan Lokey and legal counsel were excused from the meeting and the directors further discussed the possible transaction. At the conclusion of these discussions, the Allied Riser board unanimously approved the merger agreement and the related transactions.

The merger agreement approved by the respective boards of directors of Cogent and Allied Riser was executed by each company on August 28, 2001, and Cogent and Allied Riser issued a joint press release the following morning.

On September 24, 2001, the Allied Riser board met by telephone conference call to discuss, among other things, the status of the proposed merger with Cogent, including the status of Cogent's issuance of its Series C preferred stock. On October 1 and 2, Mr. Schaeffer and Mr. Dinsmore met in Dallas to discuss the progress of the merger. Since the execution of the merger agreement, Cogent had acquired certain assets and liabilities of NetRail, Inc., and Allied Riser had made substantial progress in negotiating with various creditors and vendors regarding the settlement and termination of certain agreements. In addition, the financial markets had materially deteriorated, particularly for the stocks of communications companies. Given the occurrence of these events and Cogent's and Allied Riser's desire to file this proxy statement/prospectus promptly, Mr. Schaeffer and Mr. Dinsmore agreed to consider an amendment to the merger agreement to provide, among other things that (1) this proxy statement/prospectus would be filed by a specific date, (2) Cogent would complete the issuance of its Series C preferred stock by a specific date, and (3) Allied Riser would have additional flexibility to restructure or terminate certain agreements.

On October 4, 2001, the Allied Riser board met by telephone conference call to discuss the proposed amendment to the merger agreement. Mr. Dinsmore described certain changes in circumstances that had occurred since the signing of the merger agreement, including the decrease in the anticipated issuance of Cogent's Series C preferred stock from approximately $130 million to approximately $65 million and Allied Riser's success in negotiating a reduction of its capital lease obligations. Mr. Dinsmore further described the status of Allied Riser's initiatives regarding reduction of its costs and of discussions regarding the terms of the proposed amendment to the merger agreement, including an increase in the amount of Cogent stock to be received by the Allied Riser

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stockholders in the merger, the obligations of Cogent to complete the issuance of its Series C preferred stock, and of Cogent and Allied Riser to file the proxy statement/prospectus by specific dates, and the increase in the amount of cash expenditures that Allied Riser would be permitted to make during the fourth quarter 2001, the designation by Allied Riser of an additional director to Cogent's board, and various other minor provisions. The directors then discussed the proposed amendment. At the conclusion of the discussion, the directors present authorized management to complete negotiation of the proposed amendment.

Management of both companies continued to discuss certain provisions of the proposed amendment. Cogent learned, and informed Allied Riser, that the proceeds from Cogent's Series C preferred stock offering would be $62.0 million. Under the merger agreement, a condition to Allied Riser's obligation to close the merger was that Cogent realize at least $65.0 million in exchange for issuance of its Series C preferred stock. In addition, Allied Riser and Cogent discussed the effects on the respective valuation of the companies of Cogent's NetRail acquisition and of Allied Riser's successful settlement of its credit facility with a major supplier. In view of these circumstances, and in order to induce Allied Riser to agree to amend the merger condition regarding minimum proceeds in Cogent's Series C offering, Cogent agreed to increase the amount of Cogent common stock to be received by Allied Riser stockholders in the merger. The additional Cogent stock would result in an increase in the potential post-merger value of the Cogent stock distributed to Allied Riser stockholders from $20 million to $25 million. Cogent agreed to Allied Riser's request to delete the requirement that certain stockholders of Allied Riser enter into lockup agreements with Cogent, which affected Norwest Venture Partner VII, LP, Telecom Partners II and certain of its affiliates, and Crescendo World Fund, LLC and certain of its affiliates, however, Cogent requested that in exchange for the elimination of the lockup agreements, the parties to the lockup agreements enter into voting agreements in which they agreed to vote in favor of the merger. These and other changes were included in the proposed amendment to the merger agreement.

On October 10, 2001, the Allied Riser board met by telephone conference call. Mr. Dinsmore detailed the terms of the proposed amendment to the merger agreement, including, without limitation:

- increasing the valuation of Cogent common stock to be issued to Allied Riser stockholders to $25.0 million;
- increasing Allied Riser's authorized company cash expenditures by $5.0 million for the fourth quarter of 2001;
- permitting Allied Riser to terminate the merger agreement if this proxy statement/prospectus shall not have been filed with the SEC on or prior to October 16, 2001;
- permitting Allied Riser to terminate the merger agreement if Cogent shall not have issued at least $62.0 million of its Series C preferred stock for cash on or prior to October 17, 2001; and
- elimination of the lockup agreements that, under the merger agreement, were to be executed by certain stockholders of Allied Riser and in place thereof, execution of a voting agreement by those stockholders.

Following discussions of the terms of the proposed amendment, the board authorized Mr. Dinsmore and the other members of senior management to continue the negotiations and to finalize an amendment to the merger agreement.

On October 11, 2001 Cogent's board of directors met by telephone to consider, among other matters, the status of the merger with Allied Riser. The board reviewed with management the current terms of the amendment under discussion and confirmed management's authorization to negotiate and enter into an amendment to the merger agreement.

Management of both companies continued to negotiate final provisions in the proposed amendment to the merger agreement. Allied Riser management expressed the desire to avoid the forced sale by its stockholders of the Cogent stock they would get in the merger if Cogent management decided to take Cogent private, even though Cogent had not expressed any intention to do so. Cogent agreed to add a prohibition to the amendment on effecting a going-private transaction for at least six months following the consummation of the merger. Allied Riser also requested a covenant that Cogent not acquire or agree to acquire another material business or person prior to the consummation of the merger. Cogent agreed and added this provision to the proposed amendment to the merger agreement. On October 13, 2001, Cogent and Allied Riser executed the amendment to the merger agreement.

Recommendation of the Allied Riser Board of Directors; Allied Riser's Reasons for the Merger

The Allied Riser board of directors believes that the merger is in the best interests of Allied Riser's stockholders and has unanimously approved the merger agreement and declared it to be advisable, and unanimously recommends that Allied Riser stockholders vote "FOR" adoption of the merger agreement and approval of the merger.

In reaching its decision, the Allied Riser board of directors consulted with Allied Riser's management and its financial and legal advisors, and considered a variety of factors, including the following:

- the per share merger consideration in relation to recent market trading prices for Allied Riser common stock;
- Cogent's covenant not to go private for a period of six months following the effective time of the merger;
- conditions in the telecommunications services industry particularly with respect to lack of access to additional capital and Allied Riser's business, operations, financial condition, earnings, and prospects as an independent company, including Allied Riser's ability to locate network connectivity partners on a timely and cost-effective basis and the ability of the Cogent network to provide needed connectivity to implement Allied Riser's business plan;
- the anticipated financial resources of the combined entity, given the expected debt and equity sources of capital following consummation of the merger, including Cogent's anticipated issuance of its Series C preferred stock and its anticipated equipment financing and working capital facility;
- the trend of further consolidation in the telecommunications industry and the decreasing number of available strategic partners for Allied Riser;
- significant declines in the valuation of competitive telecommunications providers, continued weakness in the demand for information and technology and telecommunications services, and business failures of Broadband Office and OnSite Access, prominent companies in markets similar to Allied Riser's;
- Allied Riser's prospects as an independent company, the constraints on Allied Riser's ability to pursue its strategic objectives due to its limited access to capital and its present size, and the belief that Allied Riser's prospects would be enhanced by the merger;
- the ability of Allied Riser to effect a restructuring of its current debt on acceptable terms and Houlihan Lokey's advice that in the event of a possible liquidation stockholders would likely receive no value for their shares;

- the opportunity for Allied Riser stockholders to participate in a company with greater financial resources and access to capital and long term contracts to use nationwide fiber-optic intercity and intra-city networks;
- the opinion of Houlihan Lokey that, as of the date of its opinion, the merger and the exchange of Allied Riser shares as provided in the merger agreement were fair to the Allied Riser stockholders and fair to Allied Riser's creditors (on an aggregate basis) from a financial point of view and the fact that the opinion of Houlihan Lokey was not updated in connection with the amendment to the merger agreement or the material events or changes in circumstances that occurred after August 28, 2000, including the settlement of capital lease obligations of a subsidiary of Allied Riser and the inability to restructure Allied Riser's convertible subordinated notes, that would have affected the analysis of Houlihan Lokey as to the fairness of the merger from a financial point of view and the opinion delivered by Houlihan Lokey on August 28, 2001. See " Opinion of Allied Riser's Financial Advisor;"

- the determination by the Allied Riser directors that no update to Houlihan Lokey's opinion was necessary in connection with the amendment to the merger agreement and the fact that the directors did not rely on the Houlihan Lokey opinion in connection with the amendment;
- the anticipated effectiveness of the merger in implementing Allied Riser's strategy to provide in-building services utilizing its broadband data network;
- the potential increased scale, scope, and financial strength of the combined company, the potential greater liquidity of the combined company and the combined company's potential for increased access to capital;
- the business, operations, financial condition, earnings, and prospects of Allied Riser and Cogent, taking into account the results of Allied Riser's due diligence review of Cogent;
- the anticipated financial impact of the proposed transaction on the combined company's financial performance, including the resulting company's capital structure;
- the complementary nature of the businesses of Allied Riser and Cogent;
- the structure of the merger and the financial and other terms of the merger agreement;
- the ability of Allied Riser under certain conditions to consider unsolicited alternative proposals, its ability to terminate the merger agreement under certain conditions, and the termination fees payable on certain termination events;
- the likelihood that the common stock of Allied Riser will be delisted from quotation and trading on the NASDAQ National Market System if Allied Riser remained an independent company;
- the anticipated tax treatment of the merger.

Allied Riser's board of directors also identified and considered a variety of potentially negative factors in its deliberations concerning the merger, including the following:

- the risk that the potential benefits in the merger might not be fully realized;
- the possibility that the merger might not be consummated and the effect of the public announcement of the merger on Allied Riser's customers, creditors, and employees;
- the likelihood that Cogent would complete its issuance of preferred stock and receive certain consents, as set forth in the merger agreement;
- the fact that Cogent has been in business for a limited time, has limited revenues, and has yet to earn a profit;

- the risk that Cogent will be unable to list its common stock for quotation on the NASDAQ National Market System or other national securities exchange;

as described on pages 43 and 44 of this proxy statement/prospectus, and by virtue of certain indemnification rights, change in control arrangements, and accelerated vesting of stock options, restricted shares, and deferred share units, the fact that certain members of Allied Riser's board of directors and management might have interests in the merger that are different than those of other Allied Riser stockholders;

the risk of possible delays associated with the completion of the merger; and

the other risks described under "Risk Factors" beginning on page 13 of this proxy statement/prospectus.

The foregoing discussion of the information and factors considered by the Allied Riser board of directors is not exhaustive, but includes the material factors considered by the Allied Riser board of directors. The Allied Riser board of directors did not quantify or assign any relative or specific weights to the various factors that it considered. Rather, the Allied Riser board of directors based its recommendation on the totality of the information presented to and considered by it. In addition, individual members of the Allied Riser board of directors may have given differing weights to different factors.

The Allied Riser board of directors unanimously recommends that Allied Riser stockholders vote "FOR" the adoption of the merger agreement and approval of the merger.

Opinion of Allied Riser's Financial Advisor

Allied Riser initially retained Houlihan Lokey in July 2001, to advise the board regarding Allied Riser's business and possible strategic alternatives. This engagement was terminated by Allied Riser on October 29, 2001, however, subsequent to the initial engagement Houlihan Lokey was retained by the Allied Riser board of directors to analyze the fairness of the merger from a financial point of view to stockholders on the one hand, and and to all Allied Riser creditors considered on an aggregate basis, on the other. It was Houlihan Lokey's understanding that the opinion with respect to the creditors (on an aggregate basis) was being delivered solely as a condition to the merger agreement as it existed on August 28, 2001 without regard to subsequent amendments. Houlihan Lokey is a nationally recognized investment banking firm that provides financial advisory services in connection with mergers and acquisitions, leveraged buyouts, business valuations for a variety of regulatory and planning purposes, recapitalizations, financial restructurings, and private placements of debt and equity securities.

At the meeting of the Allied Riser board of directors on August 28, 2001, Houlihan Lokey rendered its oral opinion, subsequently confirmed in writing, that as of August 28, 2001, and subject to and based upon the various qualifications and assumptions set forth in its written opinion, the consideration to be received by the stockholders of Allied Riser in connection with the merger as described in the merger agreement as it existed on August 28, 2001 without regard to subsequent amendments was fair, from a financial point of view, to Allied Riser's stockholders, as well as to all of Allied Riser's creditors on an aggregate basis. The full text of Houlihan Lokey's written opinion, dated August 28, 2001, to the board of directors, which sets forth the assumptions made, general procedures followed, factors considered and limitations on the review undertaken, is attached as Appendix C, and is incorporated herein by reference. This summary is qualified in its entirety by reference to the full text of such opinion. Stockholders and creditors of Allied Riser are urged to, and should, read the opinion in its entirety. The engagement of Houlihan Lokey and its opinion are for the benefit of Allied Riser's board of directors. Houlihan Lokey undertook no obligation to update its opinion following its delivery on August 28, 2001. **In particular, the Allied Riser board of directors did not request, nor did Houlihan Lokey deliver any update to the opinion in connection with the amendment of the merger**

agreement signed on October 13, 2001. The board of directors determined that each of the provisions of the amendment provided a benefit to Allied Riser stockholders and did not justify the reissuance of the opinion. The approval of the directors of the amendment to the merger agreement or the material events or changes in circumstances that occurred after August 28, 2001, would have affected the analysis of Houlihan Lokey as to the fairness of the merger from a financial point of view and the opinion delivered by Houlihan Lokey on August 28, 2001.

Following the delivery by Houlihan Lokey of its opinion on August 28th, Allied Riser and Cogent entered into an amendment to the merger agreement on October 13, 2001. The amendment principally increased the valuation of Cogent common stock to be issued to Allied Riser's stockholders in connection with the merger, prohibited Cogent from consummating a going private transaction for a period of six months following the merger, increased Allied Riser's authorized company cash expenditures for the fourth quarter of 2001, prohibited Cogent from making certain acquisitions of material businesses or assets prior to the effectiveness of the merger, permitted Allied Riser to enter into certain settlement agreements with its creditors, permitted Allied Riser to terminate the merger agreement upon the occurrence or non-occurrence of certain events, eliminated certain lock-up agreements which were to be executed by certain stockholders of Allied Riser, required Allied Riser to use its reasonable best efforts to cause certain stockholders to execute voting agreements with respect to the merger and moved back the date on which either party could terminate the merger agreement in the event the merger has not occurred. In addition to the amendment to the merger agreement, certain other significant events occurred following the delivery by Houlihan Lokey of its opinion on August 28th, including the acquisition by Cogent of certain assets of NetRail on September 6, 2001, the settlement by Allied Riser of certain of its capital lease obligations on October 9, 2001, the issuance by Cogent of approximately $62 million of its Series C preferred stock on October 17, 2001, and the agreement in October 2001 to increase the amount available under Cogent's credit facility with Cisco Systems Capital Corporation. These events would have affected Houlihan Lokey's analysis as to the fairness of the merger from a financial point of view.

Houlihan Lokey did not, and was not requested by Allied Riser to, make any recommendations as to the form or amount of consideration to be received by the Allied Riser stockholders, the market value or realizable value of Cogent common stock given as consideration in the merger, the prices at which Cogent common stock may sell in the future following the merger, or the tax or legal consequences of the merger, and Houlihan Lokey does not express any opinion as to the fairness of any aspect of the merger not expressly addressed in its fairness opinion. Allied Riser agreed to indemnify Houlihan Lokey and its affiliates against certain liabilities, including liabilities under federal securities laws that arise out of the engagement of Houlihan Lokey.

Houlihan Lokey's opinion did not address Allied Riser's underlying business decision to effect the merger. Houlihan Lokey was not been requested to, and did not, solicit third party indications of interest in acquiring all or any part of Allied Riser. Furthermore, Houlihan Lokey has not negotiated the merger.

The opinion did not constitute a recommendation to the board of directors as to whether or not to support the merger and recommend it to Allied Riser's stockholders and did not and does not constitute a recommendation to Allied Riser stockholders as to whether or not to vote in favor of the merger.

Matters Reviewed

In arriving at its opinion, among other things, Houlihan Lokey:

- reviewed Allied Riser's annual report on Form 10-K for the fiscal year ended December 31, 2000 and quarterly reports on Form 10-Q for the quarters ended March 31, 2001, and June 30,

2001, which Allied Riser's management identified as being the most current financial statements available;

- reviewed Cogent's audited financial statements for the fiscal year ended December 31, 2000 and Cogent's unaudited interim financial statements for the six months ended June 30, 2001, which Cogent's management identified as being the most current financial statements available;

- reviewed the form of the merger agreement as it existed on August 28, 2001 without regard to subsequent amendments;

- reviewed copies of the following agreements: (i) Indenture to the Company's 7.5% Convertible Subordinated Notes due 2007, (ii) Master Agreement to Lease Equipment with Cisco Systems Capital Corporation, (iii) various Transit Agreements (e.g. AT&T, Sprint, Qwest, etc.), (iv) various Telecommunications License Agreements, (v) Cogent's Series A Participating Convertible Preferred Stock Purchase Agreement, (vi) Cogent's Series B Participating Convertible Preferred Stock Purchase Agreement, and (vii) Cogent's Summary of Terms for its proposed issuance of Series C Preferred Stock as of August 9, 2001;

- met with certain members of the senior management of Allied Riser and Cogent to discuss the merger as well as the operations, financial condition, future prospects and projected operations and performance of Allied Riser and Cogent;

- reviewed forecasts and projections prepared by Allied Riser's management with respect to Allied Riser for the years ended December 31, 2001 through 2006;

reviewed forecasts and projections prepared by Cogent's management with respect to Cogent for the years ended December 31, 2001 through 2011;

reviewed the historical market prices and trading volume for Allied Riser's publicly traded securities;

reviewed certain other publicly available financial data for certain companies that Houlihan Lokey deemed comparable to Allied Riser;

reviewed drafts of certain documents to be delivered at the closing of the merger;

conducted such other studies, analyses and inquiries as Houlihan Lokey deemed appropriate.

Assumptions and Limitations

Houlihan Lokey's opinion was based on the business, economic, market, and other conditions that existed as of August 28, 2001. Houlihan Lokey relied upon and assumed, without independent verification, that the financial forecasts and projections provided to it by Allied Riser and Cogent had been reasonably prepared and reflected the best currently available estimates of the future financial results and condition of Cogent and Allied Riser, and that there had been no material change that had not been disclosed to it by Allied Riser and Cogent in the assets, financial condition, business or prospects of Cogent or Allied Riser since the date of the most recent financial statements made available to it.

Houlihan Lokey did not independently verify the accuracy and completeness of the information supplied to it with respect to Cogent or Allied Riser and did not assume any responsibility with respect to it. Houlihan Lokey did not make any physical inspection or independent appraisal of any of the properties or assets of Cogent or Allied Riser. Houlihan Lokey's opinion is necessarily based on business, economic, market and other conditions as they existed and could be evaluated by it at the date of the opinion.

The conclusion resulting from the analyses indicated that as of the date such opinion was rendered, the merger as described in the merger agreement as it existed on August 28, 2001, was fair to the stockholders of Allied Riser from a financial point of view and fair to Allied Riser's creditors (on an aggregate basis) from a financial point of view. Houlihan Lokey undertook no obligation to update its opinion following its delivery on August 28, 2001 and no such update was requested or received by the board of directors in connection with the approval by the directors of the amendment to the merger agreement or the material events or changes in circumstances that occurred after August 28, 2001, which would have affected the analysis of Houlihan Lokey as to the fairness of the merger from a financial point of view and the opinion delivered by Houlihan Lokey on August 28, 2001.

Valuation of Cogent Communications Group, Inc.

The following is a summary of the material financial analyses performed by Houlihan Lokey in connection with rendering its fairness opinion on August 28, 2001 to the Allied Riser board of directors. Houlihan Lokey used several methodologies to assess the fairness, from a financial point of view, of the consideration to be received by the Allied Riser stockholders in the merger as described in the merger agreement as it existed on August 28, 2001, without regard to subsequent amendments. Each methodology provided an estimate as to the aggregate value of the equity Allied Riser stockholders will receive in the merger. The summary of the financial analyses was not a complete description of the analyses performed by Houlihan Lokey. The Houlihan Lokey opinion is based upon the totality of the various analyses performed by Houlihan Lokey and reliance on any particular portion of the analyses without considering all analyses and factors could create a misleading or incomplete view of the process underlying the opinion.

Comparable Company Analysis.

Using publicly available information, Houlihan Lokey compared selected financial data of Cogent with similar data of selected companies engaged in businesses considered by Houlihan Lokey to be comparable to that of Cogent. Houlihan Lokey included in its selected comparable companies Broadwing Inc., Focal Communications Corp., Genuity Inc., Level 3 Communications, Inc., Metromedia Fiber Network, Inc., SAVVIS Communications Corp., Time Warner Telecom Inc., Williams Communications Group, and XO Communications, Inc. The purpose of the comparable company analysis was to establish a range for the potential equity value of Cogent, by selecting certain operating results commonly used in the public equity markets to value the comparable companies and applying a range of multiples to similar projected operating results of Cogent.

Inherent differences exist between the businesses, operations and prospects of Cogent and the comparable companies. Accordingly, Houlihan Lokey believed that it was inappropriate to, and therefore did not, rely solely on the above-described quantitative results of the comparable company analysis and accordingly also made qualitative judgments concerning differences between the financial and operating characteristics and prospects of Cogent and the comparable companies that would, in Houlihan Lokey's opinion, affect the public market valuation of such companies. Set forth below is the table presented by Houlihan Lokey to the Allied Riser Board of Directors regarding its comparable company analysis.

COGENT COMMUNICATIONS
STAND-ALONE VALUATION

	Enterprise Value	Less: Debt as of 6/30/01	Implied Equity Value
Comparable Public Company Approach			
Implied Valuation Based on Projected 2003 Revenue	$ 347	$ 140	$ 207
Implied Valuation Based on Projected 2003 EBITDA	$ 425	$ 140	$ 285

Discounted Cash Flow Analysis

Based upon projections furnished by Cogent management, Houlihan Lokey performed a discounted cash flow analysis, calculating the debt-free cash flows (*i.e.*, cash flows before payments made to equity investors and holders of interest-bearing debt) that Cogent expected to generate for the fiscal years ending December 31, 2001 through 2006. Houlihan Lokey also calculated a range of terminal values for Cogent at the conclusion of a five-year period ending in 2006. In calculating this range in terminal value, Houlihan Lokey used terminal multiples ranging from 4.5 to 5.5 times projected fiscal 2006 EBITDA. Houlihan Lokey then discounted these debt-free cash flows and the range of these terminal values to the present using a range of discount rates from 45% to 55%. Houlihan Lokey selected these discount rates based on assumed rates of return necessary to justify an investment in comparable, late-stage venture capital companies.

Although the Allied Riser directors noted the terminal multiples and the discount rates used by Houlihan Lokey, they did not form an independent judgment as to whether the terminal multiples and discount rates were reasonable. The directors believed that Houlihan Lokey had sufficient experience in evaluating companies in the telecommunications industry they could rely on these assumptions as being appropriate for a discounted cash flow analysis of Cogent.

Set forth below is Houlihan Lokey's discounted cash flow analysis as presented to the Allied Riser directors:

COGENT COMMUNICATIONS
DCF VALUATION

	3 Mos. Ended Dec. 31, 2001	Fiscal Year Ended December 31, 2002	2003	2004	2005	2006
EBITDA	$ (14.8)	$ (10.0)	$ 169.9	$ 414.9	$ 560.8	$ 804.6
less: Capital Expenditures	(33.6)	(147.5)	(127.8)	(140.5)	(186.4)	(140.3)
less: Changes in Working Capital	(6.7)	(15.8)	(24.2)	(42.1)	(20.9)	(21.5)
less: Taxes				(46.9)	(157.2)	(268.8)
Terminal Value						4,023.0
Free Cash Flow	$ (55.1)	$ (173.4)	$ 17.8	$ 185.4	$ 196.3	$ 4,396.9
Years Until Cash Flow Receipt	0.25	1.25	2.25	3.25	4.25	5.25
Discounted Cash Flows	**$ (49.8)**	**$ (104.4)**	**$ 7.2**	**$ 49.6**	**$ 35.0**	**$ 523.2**

	Fiscal Year Ended December 31,				
3 Mos. Ended Dec. 31, 2001	2002	2003	2004	2005	2006
Discount Rate	4.50x	4.75x	5.00x	5.25x	5.50x
	Terminal Year Multiple				
45.0%	$ 512.3	$ 540.9	$ 569.5	$ 598.1	$ 626.7
47.5%	$ 460.0	$ 486.1	$ 512.3	$ 538.4	$ 564.6
50.0%	$ 412.9	$ 436.8	$ 460.8	$ 484.7	$ 508.6
52.5%	$ 370.5	$ 392.4	$ 414.4	$ 436.3	$ 458.3
55.0%	$ 332.2	$ 352.4	$ 372.5	$ 392.7	$ 412.8

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New Money Valuation Analysis

Houlihan Lokey reviewed the summary of terms for the proposed issuance by Cogent of its Series C preferred stock to a group of third-party investors. As of August 28, 2001, Houlihan Lokey was advised that Cogent was in the process of negotiating a private placement of $130 million in Series C preferred stock. Such shares were being valued based on arms length negotiations between Cogent and a group of investors.

The Series C preferred stock, as initially presented in the term sheet provided to Houlihan Lokey and as finally negotiated, is convertible at any time by a holder into shares of Cogent common stock on a one-for-one basis. As initially presented and as finally negotiated, each share of Series C preferred stock has a liquidation preference of two times the amount paid to Cogent for such share. The initial term sheet contemplated antidilution protection for the Series C preferred stock if Cogent were to sell equity subsequent to the Series C preferred stock financing at a value less than the financing based upon a weighted average formula for all subsequent equity offerings by Cogent. The final terms for the financing provided full antidilution protection for any offering by Cogent of equity at less than the value set in the financing.

The price per share of the Cogent Series C preferred stock was not determined as of August 28, 2001, but the exchange ratio in the merger agreement prior to its amendment provided that the Allied Riser stockholders would receive no less than 7.4% of the fully-diluted equity of Cogent in the merger, even if Cogent raised more money in its Series C preferred stock financing than originally contemplated, and that Allied Riser could elect to terminate the merger agreement if Cogent raised less than $65 million in its financing. At the time the Allied Riser Board of Directors approved the amendment to the merger agreement on October 10, 2001, the price for a share of the Cogent Series C preferred stock was set at $1.2467 per share, or $12.467 per share on a reverse-split-adjusted basis.

Houlihan Lokey drew no specific conclusion from its comparable company, discounted cash flow and new money valuation analyses, but subjectively factored its observations from these analyses into its qualitative assessment of the facts and circumstances relevant to its opinion.

Houlihan Lokey presented the following table to the Allied Riser Board of Directors that reflects the three approaches for valuing Cogent prior to the contribution of the Allied Riser business.

COGENT COMMUNICATIONS
STAND-ALONE VALUATION

	Enterprise Value	Less: Debt as of 6/30/01	Implied Equity Value
Comparable Public Company Approach			
Implied Valuation Based on Projected 2003 Revenue	$ 347	$ 140	$ 207
Implied Valuation Based on Projected 2003 EBITDA	$ 425	$ 140	$ 285

	Enterprise Value	Less: Debt as of 6/30/01	Implied Equity Value
Discounted Cash Flow Approach			
Implied Discounted Cash Flow Valuation	$ 461	$ 140	$ 321
New Money Valuation Approach			
Post Money Implied Valuation	$ 374	$ 140	$ 235
Implied Value	$ 380	$ 140	$ 240

Debt Assumption Analysis

Houlihan Lokey analyzed assumed trading values and potential recoveries with respect to creditors on an aggregate basis under the combined entity to assess the fairness of the merger as it existed on

August 28, 2001 without regard to subsequent amendments. Houlihan Lokey assessed the risk profile and leverage of the combined entity to determine likely recovery for creditors of Allied Riser. Houlihan Lokey discounted various obligations at rates it deemed appropriate to reflect the risk inherent in the merged entity.

Review of Strategic Alternatives to the Merger

In evaluating the fairness for Allied Riser's stockholders, as well as Allied Riser's creditors on an aggregate basis, Houlihan Lokey considered the expected value to Allied Riser's stockholders and creditors of completing the merger and certain alternatives to the merger, in each case, as described in the merger agreement as it existed on August 28, 2001 without regard to subsequent amendments and material events that occured after August 28, 2001. With regard to each alternative, Houlihan Lokey's analysis qualitatively considered the valuation implications to the stockholders, the probability of successfully completing the alternatives, and the cost and time to implement the alternatives. For purposes of this analysis, Houlihan Lokey considered the following strategic alternatives: (1) pursuit of a wholesale model providing in-building access to other carriers and subsequent bankruptcy at year end 2002; (2) negotiated out-of-court debt restructuring and liquidation; and (3) immediate filing for Chapter 11 bankruptcy protection.

Houlihan Lokey noted that of the strategic alternatives considered, the merger as described in the merger agreement as it existed on August 28, 2001 without regard to subsequent amendments and material events that occured after August 28, 2001 appeared to provide the greatest value to Allied Riser's stockholders and creditors (on an aggregate basis) on a risk-adjusted basis. Set forth below is the table presented to the Allied Riser Board of Directors by Houlihan Lokey regarding strategic alternatives:

ALLIED RISER ALTERNATIVES
COMMON EQUITY
($ IN MILLIONS)

	Low	High
Enterprise value	$ 380	$ 410
Less: Debt as of June 30, 2001	140	140
Value of Cogent Communications Common Equity	240	270
8% Equity Allocation to Allied Riser Common Equity[(1)]	19	22
Less: Discount[(2)]	35%	25%

	Low		High	
Implied Consideration to Allied Riser Common Equity	$	12	$	16
Stand Alone Alternative				
Scenario 1 Liquidation	$	0	$	0
Scenario 2 Out of Court Restructuring	$	13	$	15
Current Market Value	$	8	$	10

(1) Represents 8% of stand-alone Cogent equity. Does not include any value derived through contribution of Allied Riser assets.

(2) Represents discounts for lack of marketability and liquidation preference of preferred.

Conclusion

The summary set forth above describes the material points of more detailed analyses performed by Houlihan Lokey in arriving at its fairness opinion. The preparation of a fairness opinion is a complex

analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and application of those methods to the particular circumstances and is therefore not readily susceptible to summary description. In arriving at its opinion, Houlihan Lokey made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Houlihan Lokey believes that its analyses and summary set forth herein must be considered as a whole. In its analysis, Houlihan Lokey made numerous assumptions with respect to Cogent, Allied Riser, industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of management of either company. The estimates contained in such analyses are not necessarily indicative of actual values or predictive of future results or values, which may be more or less favorable than suggested by such analyses. Additionally, analyses relating to the value of businesses or securities are not appraisals. Accordingly, such analyses and estimates are inherently subject to substantial uncertainty. You should carefully read this summary in conjunction with the opinion letter dated August 28, 2001 which is included as Appendix C to this proxy statement/prospectus.

In accordance with the terms of its engagement letter and in addition to the fees payable by Allied Riser to Houlihan Lokey pursuant to its initial engagement, Allied Riser agreed to pay Houlihan Lokey a fee of $700,000, plus reasonable out-of-pocket expenses, for its preparation and delivery of the fairness opinion. No portion of Houlihan Lokey's fee is contingent upon the opinion of the merger being favorable or upon the successful completion of the merger. Allied Riser has also agreed to indemnify Houlihan Lokey against certain liabilities, including liabilities under the federal securities laws, relating to or arising out of the engagement of Houlihan Lokey. In addition, Allied Riser has entered into an amendment to the merger agreement based on certain changes in circumstances that have occurred since the Houlihan Lokey opinion was delivered. Such changed circumstances were not considered in the opinion and would have affected the analysis and/or conclusions reached by Houlihan Lokey, if Houlihan Lokey had been requested to update its opinion.

Recommendation of the Cogent Board of Directors; Cogent's Reasons for the Merger

The Cogent board of directors has unanimously adopted and approved the merger agreement and has recommended approval of the merger to its stockholders. In the course of reaching its decision to adopt and approve the merger agreement and the merger and to recommend approval to its stockholders, the Cogent board of directors consulted with legal advisors and considered a number of factors, including, among others, the following principal factors that were material to the decision:

- current industry, market and economic conditions, including the continuing trend of consolidation in the telecommunications industry and the importance of operational sales in remaining competitive in the long term;

- the strategic fit between the two companies and the potential for a combined company with greater financial and operational strength, including the belief that the combined company's stronger balance sheet will enable it to accelerate execution of its business plan, effect capital expenditure cost savings, and enhance the combined company's access to capital;

the complementary nature of the companies' network footprint and service offerings;

common technology platform and operational support systems;

the perceived operating efficiencies of the combined company due to lower building connectivity costs, based upon Cogent's analysis of the licenses that Allied Riser holds to service potential customers by its in-building network, which identified approximately 430 buildings in various markets that are close to Cogent's out-of-building network in those markets. This is expected to result in lower end-to-end service costs to those customers; and

the financial condition of the combined company after the transaction, including its pro forma market capitalization, revenues, and potential profits and earnings.

In the course of deliberations, Cogent also considered a number of additional factors relevant to the merger, including:

the possibility of strategic alternatives to the merger for enhancing long-term stockholder value, including investigating strategic transactions with other companies;

the potential for an increase or decrease in the market price of the combined company;

the potential for improved trading liquidity for stockholders of the combined company;

the terms and conditions of the merger agreement, including the termination fees and the "fiduciary duty outs," the agreements contemplated by the merger agreement, and the closing conditions;

the expected qualification of the merger as a reorganization under section 368(a) of the Internal Revenue Code;

the impact of the merger on Cogent and Allied Riser customers, suppliers, and employees; and

the likelihood that the merger will be completed.

Cogent also identified and considered a number of potentially negative factors in its deliberations concerning the merger, including:

the risk that, despite Cogent and Allied Riser's efforts after the merger, the combined company may lose key personnel;

the risk that Cogent and Allied Riser's customers and suppliers might cease doing business with the combined company;

the risk of potential adverse effects of one-time and/or recurring charges expected to be incurred in connection with the costs of the merger and the subsequent integration of the companies;

the risk that the potential benefits of the merger might not be fully realized;

- the effect on the interests of Cogent stockholders associated with becoming a public company and the difficulties for Cogent in establishing and maintaining quotation or listing on the Nasdaq National Market or on a national securities exchange; and

- the risk of litigation by stockholders and noteholders of Allied Riser.

Cogent believes that these and other risks can be avoided or mitigated, and that, overall, they are outweighed by the potential benefit of the merger.

The foregoing discussion of the information and factors considered by the Cogent board of directors is not exhaustive but does include material factors considered by the Cogent board of directors. The Cogent board of directors did not quantify or assign any relative or specific weights to the various factors that it considered. Rather, the Cogent board of directors based its recommendation on the totality of the information presented to and considered by it. In addition, individual members of the Cogent board of directors may have given differing weights to different factors.

Regulatory Approvals Required for the Merger

Cogent and Allied Riser have agreed to use their reasonable best efforts to obtain all regulatory approvals required in order to consummate the merger. Cogent and Allied Riser have either filed, or intend to file promptly after the date of this document, applications and notifications to obtain the required regulatory approvals, including approval from the Federal Communications Commission and

various state regulatory authorities. Cogent and Allied Riser cannot provide any assurances that the required regulatory approvals will be obtained and, if obtained, as to the date of any of these approvals or the absence of any litigation challenging them or the merger. We can also not assure you that regulatory authorities will not, as a condition to granting their approval, require us to take actions that could adversely affect the expected value of the combined company following the merger.

Allied Riser has been granted authorizations to provide telecommunications services by federal and state regulatory agencies, but does not believe these authorizations are required to conduct its business. Allied Riser will seek the approval of the relevant regulatory agencies prior to consummating the merger to the extent required by the merger agreement and may otherwise seek approval of the relevant regulatory agencies prior to consummating the merger to the extent necessary to maintain these authorizations.

Material U.S. Federal Income Tax Consequences

The following describes the material U.S. federal income tax consequences of the merger. This discussion does not address all of the federal income tax consequences that may be important to holders of Allied Riser common stock in light of their particular circumstances; nor does this discussion address the federal income tax consequences that may be applicable to taxpayers subject to special treatment under the Internal Revenue Code, such as:

- insurance companies;

- financial institutions;

- dealers in securities;

- traders in securities that elect a mark to market method of accounting;

- tax-exempt organizations;

- stockholders who hold their shares as a part of a hedge, constructive sale, straddle, or conversion transaction;

stockholders who acquired their shares through the exercise of options or otherwise as compensation or through a tax-qualified retirement plan; and

foreign persons.

This discussion also assumes that you hold your Allied Riser common stock as a capital asset.

No information is provided in this document or the tax opinions referred to in the following paragraphs with respect to the tax consequences, if any, of the merger under applicable foreign, state, local, and other tax laws. This discussion is based, and the tax opinions referred to in the following paragraphs will be based, upon the provisions of the Internal Revenue Code, applicable Treasury Regulations, IRS rulings, and judicial decisions, as in effect as of the date of this document or the date of the tax opinions, as the case may be. There can be no assurance that future legislative, administrative, or judicial changes or interpretations, which changes could apply retroactively, will not affect the accuracy of this discussion or the statements or conclusions set forth in the tax opinions referred to in the following paragraphs. No rulings have been or will be sought from the IRS concerning the tax consequences of the merger, and none of the tax opinions of counsel to be received in connection with the merger will be binding on the IRS. The tax opinions referred to in the following paragraphs rely on facts, assumptions and representations of factual statements and covenants contained in officer's certificates of Allied Riser, Cogent and merger subsidiary. In addition, the opinions set forth below assume the absence of changes in facts or in law between the date of this proxy statement/prospectus and the effective time of the merger.

We encourage each holder of Allied Riser common stock to consult its own tax advisor as to the particular tax consequences to it of the merger, including the applicability and effect of any state, local, foreign or other tax laws, and of changes in applicable tax laws.

Tax Treatment of Allied Riser Stockholders and Allied Riser

Subject to the limitations and qualifications set forth in this section "Material U.S. Federal Income Tax Consequences" and in the opinion filed as Exhibit 8.1 to the registration statement, it is the opinion of Jones, Day, Reavis & Pogue, counsel to Allied Riser, that the merger will result in the following U.S. federal income tax consequences to holders of Allied Riser common stock and Allied Riser:

The merger will qualify as a reorganization within the meaning of section 368(a) of the Internal Revenue Code;

Allied Riser will be a "party to the reorganization" within the meaning of section 368(b) of the Internal Revenue Code;

A holder of Allied Riser common stock will not recognize gain or loss on the exchange of Allied Riser common stock for Cogent stock pursuant to the merger;

The tax basis of the Cogent common stock received by each holder of Allied Riser common stock pursuant to the merger will be equal to the tax basis of the Allied Riser common stock surrendered in exchange therefor;

The holding period of the Cogent common stock received by each holder of Allied Riser common stock will include the holding period for the Allied Riser common stock surrendered in exchange therefor; and

Allied Riser will not recognize any gain or loss as a result of the merger.

Each holder of Allied Riser common stock receiving Cogent common stock as a result of the merger will be required to retain certain records and file with its federal income tax return a statement setting forth certain facts relating to the merger.

Tax Treatment of Cogent and merger subsidiary

Subject to the limitations and qualifications set forth in this section "Material U.S. Federal Income Tax Consequences" and in the opinion addressed solely to Cogent and filed as Exhibit 8.2 to the registration statement, it is the opinion of Latham & Watkins, counsel to Cogent and merger subsidiary, that:

The merger will qualify as a reorganization within the meaning of section 368(a) of the Internal Revenue Code;

Cogent and merger subsidiary will each be a "party to the reorganization" within the meaning of section 368(b) of the Internal Revenue Code; and

Neither Cogent nor merger subsidiary will recognize any gain or loss as a result of the merger.

Accounting Treatment

The acquisition will be accounted for as a purchase for financial reporting and accounting purposes, under the newly issued Statement of Financial Accounting Standard (SFAS) No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets." SFAS No. 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. The purchase price will be allocated to Allied Riser's assets and liabilities based upon

the fair values of the assets acquired and liabilities assumed by Cogent. Goodwill and intangible assets acquired after June 30, 2001, will be subject immediately to SFAS No. 142, which changes the accounting for goodwill and intangible assets with indefinite lives from an amortization method to an impairment-only approach. A portion of the purchase price may be allocated to identifiable intangible assets. Any excess of the cost over the fair values of the net tangible and identifiable intangible assets acquired from Allied Riser will be recorded as goodwill. Goodwill and intangible assets with indefinite lives will not be amortized. Amortization will be required for identifiable intangible assets with finite lives. Any excess of fair value of net assets acquired over cost, or negative goodwill, is allocated as a pro rata reduction to all of the acquired assets except financial assets and current assets. Any remaining negative goodwill is recorded as an extraordinary gain. We have included unaudited pro forma financial information in this proxy statement under the caption "Unaudited Condensed Combined Pro Forma Financial Statements" beginning on page 121. The pro forma adjustments and the resulting unaudited condensed combined pro forma financial statements were prepared based on available information and assumptions and estimates described in notes to the unaudited condensed combined pro forma financial statements. Cogent has not made a final determination of required purchase accounting adjustments, including the allocation of the purchase price to the assets acquired and liabilities assumed, and you should consider the allocation reflected in the unaudited condensed combined pro forma financial statements preliminary.

Interests of Certain Persons in the Merger

In considering the recommendation of the Allied Riser board of directors with respect to the merger, you should be aware that certain officers and directors of Allied Riser have interests in the merger that are different from, or in addition to, the interests of Allied Riser Stockholders generally.

Allied Riser Directors/Officers

We expect that Messrs. Dinsmore, Lynch, Spreng, and Whitaker, the directors of Allied Riser, will resign in connection with the merger. It is expected that Michael R. Carper will be appointed to the board of directors of Cogent following the merger and may become an employee or consultant of Cogent.

Allied Riser Change in Control/Termination Arrangements

Retention Plan. In July 2001, the board of directors of Allied Riser retained Houlihan Lokey Howard & Zukin to advise the directors regarding possible strategic alternatives. In connection with this engagement, Houlihan Lokey advised the directors regarding employee retention plans adopted by comparable companies. After consultation with Houlihan Lokey, the board of directors established a retention plan, and as part of such plan, directed that a pool of up to approximately $5.2 million be set aside for payment to remaining employees of bonus, severance, and retention payments. In connection therewith, on July 21, 2001, Allied Riser entered into retention agreements with each of Messrs. Dinsmore, Bredeweg, and Carper and Ms. Compton, each an executive officer of Allied Riser, to provide incentives for such officers to continue to manage Allied Riser. As of December 31, 2001, approximately $2.6 million of the pool had been paid to employees in the form of bonus, severance and retention payments.

Officer and Executive Severance. Messrs. Dinsmore, Bredeweg, and Carper and Ms. Compton have employment agreements which provide for severance payments equal to six months salary upon termination of such employee's employment without cause. Under the employment agreements, the amounts estimated to be payable to each of Messrs. Dinsmore, Bredeweg, and Carper and Ms. Compton as severance in connection with the merger are $150,000, $105,000, $110,000 and $112,500, however, pursuant to the retention agreements, each officer may elect to forego such payments and to receive a payment from the bonus, severance and retention pool established by the

Board of Allied Riser. The change in control payments to each of the above-named officers from the bonus, severance and retention pool will be determined immediately prior to consummation of the merger at the discretion of Mr. Dinsmore (or, in the case of Mr. Dinsmore, at the discretion of the board of directors) and will not be known at the time of the mailing of this proxy statement/prospectus to the Allied Riser stockholders. The maximum change in control payment payable to each of Messrs. Dinsmore, Bredeweg, and Carper and Ms. Compton from the bonus, severance and retention pool is approximately $573,000, $357,000, $433,000 and $357,000, respectively. In the event that any of the above-named officers elects to receive the change in control payment from the bonus, severance and retention pool instead of the payment equal to six months salary, such officer will forfeit any outstanding stock options.

Accelerated Vesting of Stock Options and Restricted Stock. Each of the employment agreements of Messrs. Dinsmore, Bredeweg, and Carper and Ms. Compton also provide for full (or partial in the case of Mr. Bredeweg) accelerated vesting of stock options and restricted stock awarded to such executive in the event of a qualifying business combination transaction. Each of the stock option agreements and restricted stock agreements between Allied Riser and its directors and executive officers provide for full accelerated vesting of stock options and restricted stock awarded to such person in the event of a qualifying business combination transaction. The merger is expected to constitute a qualifying business combination and it is expected that each of the Allied Riser employees will be terminated in connection with the merger. The estimated value of the accelerated stock options and restricted stock to each of Mr. Dinsmore, Mr. Lynch, Mr. Spreng, Mr. Whitaker, Mr. Bredeweg, Mr. Carper, and Ms. Compton based on the difference between the $0.18 closing price of Allied Riser common stock on January 4, 2002 and the respective exercise prices of the options is approximately $0, $0, $0, $0, $0, $16,300, and $0, respectively.

Allied Riser Directors and Officer Indemnification and Insurance

The merger agreement provides for the indemnification of Allied Riser directors and officers after closing as to matters arising before completion of the merger, as well as the provision of directors' and officers' insurance after closing. See "Material Terms of the Merger Agreement Additional Agreements Insurance and Indemnification."

No Appraisal Or Dissenters' Rights

Allied Riser is organized under Delaware law. Under Delaware law, Allied Riser stockholders do not have a right to dissent and receive the appraised value of their shares in connection with the merger.

MATERIAL TERMS OF THE MERGER AGREEMENT

General

The following summary of the merger agreement is qualified by reference to the complete text of the merger agreement and amendment no. 1, each of which is incorporated by reference and attached to this document as Appendix A and Appendix B, respectively, to this document. We encourage you to read the merger agreement because it is the legal document that governs the merger. The parties to the merger agreement are Cogent, Allied Riser, and the merger subsidiary.

Under the merger agreement, the merger subsidiary will merge into Allied Riser. As a consequence of the merger, the separate corporate existence of the merger subsidiary will cease and Allied Riser will continue as the surviving corporation and a wholly owned subsidiary of Cogent.

Closing; Effective Time

We will close the merger at 10:00 a.m., Eastern Time, no later than the second business day after the conditions set forth in the merger agreement have been satisfied or waived, unless we agree to another date and time.

On the date of closing, we will file a certificate of merger and other appropriate documents with the Secretary of State of Delaware in accordance with the relevant provisions of Delaware law. The merger will become effective when the certificate of merger is filed with the Secretary of State of Delaware, or at such later time as we specify in the certificate of merger.

Consideration to be Received in the Merger

At the effective time of the merger, without any further action, each outstanding share of Allied Riser common stock, other than those shares held in the treasury of Allied Riser, or held by Cogent or its subsidiaries, will be converted into the right to receive a number of newly and validly issued, fully paid, and non-assessable shares of Cogent common stock.

If the merger is completed and Cogent does not issue any of its common stock in other transactions between now and the date the merger is completed, Allied Riser stockholders will receive 0.0321679 shares of Cogent common stock for each share of Allied Riser common stock that they own. If the merger is completed and, between now and the date the merger is completed, Cogent issues additional shares of its common stock in other transactions, Allied Riser stockholders will receive a lesser number of shares, but no fewer than 0.0317560 shares of Cogent common stock for each share of Allied Riser. Cogent will not issue fractional shares of its common stock. Instead, any otherwise fractional share will be rounded up to a whole share. The number of shares Allied Riser stockholders will receive reflect a ten-for-one reverse stock split of Cogent that is expected to occur immediately prior to the consummation of the merger.

Under the merger agreement, Cogent is prohibited from issuing additional shares of capital stock, including common stock, unless the stock issued meets the following criteria, as set forth in Exhibit C to the merger agreement:

Cogent must receive at least $1.2467 per share for additional shares issued, calculated (prior to any reverse stock split) on a fully diluted, common-equivalent shares basis;

the terms of additional shares issued must be no less favorable to Allied Riser and its stockholders than the terms of the Series C preferred stock, which terms are described in Annex B to the amendment to the merger agreement; and

the additional shares issued may not result in the number of fully diluted, common-equivalent shares of Cogent exceeding 237,979,240 (on a pre-reverse split basis).

Any share of Allied Riser common stock held by Allied Riser as treasury stock, or by Cogent, will be automatically canceled and retired in the merger and will cease to exist. We will not exchange those shares for any securities of Cogent or other consideration.

At the effective time of the merger, each outstanding share of the merger subsidiary will be automatically converted into and become one newly and validly issued, fully paid, and non-assessable share of common stock of Allied Riser, and these shares will, collectively, represent all of the issued and outstanding capital stock of Allied Riser.

No fractional shares will be issued in the merger. In lieu of the issuance of any fractional share of Cogent common stock, each holder who would otherwise be entitled to receive a fractional share will receive an additional fraction of a share of Cogent common stock to create a whole share of Cogent common stock.

Procedures for Exchange of Certificates

Exchange of Certificates

Promptly after the effective time of the merger, the exchange agent for the merger will send you a letter of transmittal. The letter of transmittal will contain instructions with respect to the surrender of your Allied Riser stock certificates. **You should not return stock certificates with the proxy card enclosed with this proxy statement/prospectus.**

Commencing immediately after the effective time of the merger, if you surrender your stock certificates representing Allied Riser shares in accordance with the instructions in the letter of transmittal, you will be entitled to receive stock certificates representing the shares of Cogent common stock into which those Allied Riser shares are converted in the merger.

After the merger, each certificate that previously represented shares of Allied Riser stock will represent only the right to receive the shares of Cogent common stock into which the shares of Allied Riser stock were converted in the merger.

We will close Allied Riser's transfer books at the effective time of the merger and no further transfers of shares will be recorded on the transfer books. If a transfer of ownership of Allied Riser stock that is not registered in the records of Allied Riser's transfer agent has occurred, then, so long as the Allied Riser stock certificates are accompanied by all documents required to evidence and effect the transfer, as set forth in the transmittal letter and accompanying instructions, and by evidence of payment of any applicable stock transfer taxes, a certificate representing the proper number of shares of Cogent common stock will be issued to a person other than the person in whose name the certificate so surrendered is registered, together with payment of dividends or distributions, if any.

Dividends and Distributions

You will not be paid any dividends or distributions on Cogent common stock into which your Allied Riser shares have been converted with a record date after the merger until you surrender your Allied Riser certificates to the exchange agent. When you surrender those certificates, any unpaid dividends payable as described below will be paid without interest. We do not anticipate paying any dividends in the immediate future.

Lost Certificates

If any Allied Riser common stock certificate is lost, stolen, or destroyed, the holder must make an affidavit of that fact to the exchange agent in order to receive Cogent common stock in respect of the lost, stolen, or destroyed certificates, and any unpaid dividends and distributions in respect thereof. In

addition, we may require the holder to post a bond as indemnity against any claim that may be made against it with respect to the lost, stolen, or destroyed certificates.

Withholding

Either Cogent or the exchange agent, on behalf of the surviving corporation, is entitled to deduct and withhold from the consideration otherwise payable to any holder of shares of Allied Riser common stock any amounts it is required to deduct and withhold under applicable law with respect to the making of such payment. Any amounts withheld will be treated for all purposes of the merger agreement as having been paid to the former holder of Allied Riser common stock.

Termination of Exchange Fund; No Liability

On the first anniversary of the effective time of the merger, the exchange agent will, upon Cogent's request, deliver to Cogent any portion of the shares of Cogent common stock (or dividends or distributions thereon) that remain undistributed to the former holders of Allied Riser common stock. After that date, any former holders of Allied Riser common stock who have not already exchanged their certificates for shares of Cogent common stock will have no recourse against the exchange agent and will look only to Cogent for the shares of Cogent common stock, and dividends and distributions thereon, to which they are entitled. In addition, neither Cogent nor the surviving corporation will be liable to any former holders of shares of Allied Riser common stock for shares of Cogent common stock delivered to a public official pursuant to any applicable abandoned property, escheat, or similar law. Immediately prior to the third anniversary of the effective time of the merger or any earlier date that shares of Cogent common stock exchangeable for former shares of Allied Riser common stock (or any dividends or distributions thereon) would otherwise escheat to or become the property of a governmental entity any such shares of Cogent common stock (and all dividends and distributions thereon) will, to the extent permitted by applicable law, become the property of the surviving corporation.

Stock Options; Restricted Stock; and Warrants

Stock Options

At the effective time of the merger, each outstanding option to purchase Allied Riser common stock will remain outstanding and be assumed by Cogent. Each option to purchase Allied Riser common stock will be converted into an option to purchase, on the same terms and conditions as were applicable under such option immediately prior to the merger, the number of shares of Cogent common stock (rounded to the nearest whole number) equal to the product of:

- the number of shares of Allied Riser common stock that could have been obtained prior to the merger upon exercise of such option and
- the number of shares of Cogent common stock into which each share of Allied Riser common stock is convertible in the merger;

at an exercise price per share of Cogent common stock (rounded to the nearest whole cent) equal to:

- the exercise price per share of Allied Riser common stock for such option immediately prior to the merger, divided by
- the number of shares of Cogent common stock into which each share of Allied Riser common stock is convertible in the merger.

Restricted Stock

At the effective time of the merger each share of Allied Riser common stock subject to a repurchase option, risk of forfeiture, or other condition or restriction will be converted into the same number of shares of Cogent common stock into which shares of unrestricted Allied Riser common stock convert. All shares of Cogent common stock issued in exchange for shares of restricted Allied Riser common stock will retain any such condition or restriction, except to the extent provided otherwise in any agreement between Allied Riser and any holder of shares of restricted Allied Riser common stock.

Warrants

At the effective time of the merger, each warrant to purchase Allied Riser common stock will automatically be converted into a warrant to purchase, on the same terms and conditions as were applicable under such warrant immediately prior to the merger, the number of shares of Cogent common stock (rounded to the nearest whole number) equal to the product of:

- the number of shares of Allied Riser common stock that could have been obtained prior to the merger upon exercise of such warrant; and
- the number of shares of Cogent common stock into which each share of Allied Riser common stock is convertible in the merger;

at an exercise price per share of Cogent common stock (rounded to the nearest whole number) equal to:

- the exercise price per share of Allied Riser common stock for such warrant immediately prior to the merger; divided by
- the number of shares of Cogent common stock into which each share of Allied Riser common stock is convertible in the merger.

Representations and Warranties

In the merger agreement, Allied Riser represents and warrants to Cogent, and each of Cogent and the merger subsidiary represent and warrant to Allied Riser, that:

- it is duly organized, validly existing, and in good standing as a Delaware corporation, and its capital stock is as stated in the merger agreement;
- it is duly qualified or licensed to do business and is in good standing in each jurisdiction where such qualification or license is required, except as would not have a material adverse affect on it;
- it has properly authorized, executed, and delivered the merger agreement;
- the merger agreement is enforceable against it, and required material consents, approvals, orders, and authorizations of governmental authorities and third parties relating to the merger agreement have been obtained except as contemplated by the merger agreement;
- it will not contravene in a material manner other agreements as a result of the merger agreement;
- the information it supplied for inclusion in this proxy statement/prospectus is accurate; and
- the votes of its stockholders that are required in connection with the merger are as stated in the merger agreement.

In addition, Allied Riser represents and warrants to Cogent that:

- documents it filed with the SEC do not contain untrue statements of material fact or omit material facts;
- financial statements it filed with the SEC fairly present in all material respects its financial condition;
- except as disclosed in its filings with the SEC or as permitted by, or as disclosed in, the merger agreement, no material changes or events have occurred with respect to Allied Riser or its subsidiaries since June 30, 2001;
- except as disclosed, there is no material suit or action filed or threatened against Allied Riser or its subsidiaries;
- Allied Riser and its subsidiaries have complied with all applicable laws and permits, except as would not cause a material adverse effect on it; and
- no broker or financial advisor, other than Houlihan Lokey, is entitled to any fee or commission in connection with the merger based on arrangements made by Allied Riser or its subsidiaries.

In addition, Cogent and the merger subsidiary represent and warrant to Allied Riser that:

- annual financial statements for the years ended December 31, 2000 and 1999, and financial statements for the six months ended June 30, 2001, fairly present in all material respects the financial condition of Cogent and its subsidiaries;
- except as permitted by, or as disclosed in, the merger agreement, no material changes or events have occurred with respect to Cogent or its subsidiaries since June 30, 2001;
- except as disclosed, there is no material suit or action filed or threatened against Cogent or its subsidiaries;
- Cogent and its subsidiaries have complied with all applicable laws and permits, except as would not cause a material adverse effect on it;
- Cogent's employee benefit matters, intellectual property matters, environmental matters, tax matters, and insurance matters all are as stated in the merger agreement;
- Cogent and its subsidiaries are not in breach of their material contracts and debt instruments, except as disclosed;
- except as disclosed, neither Cogent nor any of its subsidiaries have engaged in any transaction with affiliates described in the merger agreement;
- no broker or financial advisor is entitled to any fee or commission in connection with the merger based on arrangements made by Cogent or its subsidiaries; and
- Cogent does not intend to consummate a Rule 13e-3 transaction or otherwise acquire, directly or indirectly, more than 80% of the shares of Cogent common stock issued in the merger for at least six months after consummation of the merger.

The representations and warranties are of no further force or effect after the effective time of the merger.

Conduct of the Business Prior to the Merger

Each of Cogent and Allied Riser has agreed to operate its business in the ordinary course of business prior to the merger, except as disclosed, and except as consented to in writing by the other

party. Neither party can unreasonably withhold or delay a requested consent to an exception to this covenant.

Cogent has also agreed that:

- it and its subsidiaries will not take any actions that delay the filing of or require any amendment or supplement to Cogent's Form S-4 registration statement, or recirculation of this proxy statement/prospectus;
- the Cogent board of directors will not withdraw or modify, or propose publicly to withdraw or modify, in a manner adverse to Allied Riser, its approval or recommendation of the merger; and
- it and its subsidiaries will not acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any material business or any person, other than purchases of supplies in the ordinary course of business; provided, however, that it is not prohibited from completing certain specified intercompany transactions.

Allied Riser has also agreed that it and each of its subsidiaries will not do any of the following:

incur any expenses or make any payments in excess of, or take any action materially inconsistent with, the statement of authorized cash expenditures to which it has agreed with Cogent;

declare, set aside, or pay dividends on, or make any other distributions with respect to, any of its capital stock, except for dividends by a wholly owned subsidiary of Allied Riser to its parent and dividends by its other subsidiaries of which it receives its proportionate share;

split, combine, or reclassify any of its capital stock or issue or authorize the issuance of any other securities in substitution for its capital stock;

purchase or redeem any shares of its capital stock or other securities thereof;

issue or sell, or grant options to acquire, any shares of its capital stock or any securities convertible into, or exercisable for, such capital stock, except for the issuance of shares of Allied Riser common stock upon the exercise of currently outstanding options or warrants or the conversion of Allied Riser's convertible notes, in each case in accordance with the governing plan or agreement, as the case may be;

amend its certificate of incorporation or bylaws or other comparable organizational documents;

acquire, other than for cash consistent with the authorized cash expenditures, by merger or acquisition of stock or assets, any business or entity, except for supplies in the ordinary course of business consistent with past practice;

incur any material debt or guaranty any such indebtedness for another person, issue or sell any debt securities or warrants or other rights to acquire any debt securities, or enter into any arrangement having a similar economic effect, except for intercompany debt and short-term borrowings incurred in the ordinary course of business consistent with past practice;

make any material loans, advances, or capital contributions to, or investments in, any other person;

pay, discharge, settle, or satisfy, other than for cash consistent with the authorized cash expenditures, any claims, liabilities, obligations, or litigation, other than payment, discharge, settlement, or satisfaction, in the ordinary course of business consistent with past practice, or in accordance with its terms, of any liability that is recognized or disclosed in its most recent consolidated financial statements filed with the SEC or that was incurred since the date of those statements for an amount not to exceed the specific reserve for such liability set forth in those statements, except that Allied Riser is permitted to settle its obligations to Cisco System Capital

Corporation and terminate certain agreements, contracts and leases in accordance with the terms of the merger agreement;

waive or modify any standstill or similar agreement to which it is a party;

except as required by law or contemplated by the merger agreement:

enter into, adopt, amend in any material respect, or terminate any benefit plan or benefit arrangement or materially change any assumption used to calculate funding obligations with respect to any pension plan, or change the manner in which contributions to any pension plan are made or the basis on which such contributions are determined;

except as disclosed, enter into or terminate any contract or commitment, or violate, amend, or otherwise modify or waive any of the terms of any of its contracts;

materially reduce the amount of any material insurance coverage under existing insurance policies;

make any changes in accounting methods, principles, or practices unless required by changes in the Generally Accepted Accounting Principles, Regulation S-X promulgated by the SEC, or applicable statutory accounting principles;

agree to take any of the foregoing actions; or

make any materially adverse tax election.

No Solicitation

The merger agreement provides that, except as described below, Allied Riser may not, directly or indirectly:

solicit, initiate, encourage (including by furnishing information), or take any other action designed to facilitate, any takeover proposal or related inquires or

participate in any discussion or negotiation regarding any takeover proposal.

Allied Riser must immediately notify Cogent orally and in writing of any takeover proposal or any related inquiry. Allied Riser's notice must identify the person making the proposal or inquiry and describe the material terms and conditions of the proposal or inquiry. Allied Riser must keep Cogent informed of the status and material details of including amendments and proposed amendments to any proposal or inquiry.

If Allied Riser receives an unsolicited superior proposal and the Allied Riser board of directors determines, upon consultation with outside legal counsel, that the failure to negotiate in response to the superior proposal would result in a breach of their fiduciary duties, Allied Riser may, after giving Cogent the required notice:

furnish information to any person making a superior proposal in accordance with a customary confidentiality agreement and

negotiate regarding the superior proposal.

A "takeover proposal" is broadly defined to include any inquiry, proposal, or offer from any third person relating to:

any direct or indirect acquisition of a business or asset that constitutes 15% or more of Allied Riser's consolidated net revenues, net income, or assets any direct or indirect acquisition of 15% or more of any class of Allied Riser's or any of its subsidiaries' equity securities;

any tender offer or exchange offer that, if completed, would result in any person beneficially owning 15% or more of any class of Allied Riser's or any of its subsidiaries' equity securities; or

any merger, consolidation, business combination, recapitalization, liquidation, dissolution, or similar transaction involving Allied Riser or any of its subsidiaries.

A "superior proposal" is defined as any offer to acquire, directly or indirectly, more than 50% of the combined voting power of the then-outstanding shares of Allied Riser's common stock, or all or substantially all of its assets:

that in the good faith judgment of the Allied Riser board after consultation with its independent financial advisors and legal counsel would, taking into account all terms and conditions of the proposal, be more favorable to Allied Riser's stockholders than the merger and

for which financing, to the extent required, is then committed or which, in the good faith judgment of the Allied Riser board, is reasonably capable of being obtained by the offeror.

Except as set forth below, the Allied Riser board may not:

withdraw or modify, or propose publicly to withdraw or modify, in a manner adverse to Cogent, its approval or recommendation of the merger;

approve, recommend, or remain neutral to, or propose publicly to approve, recommend, or remain neutral to, any takeover proposal; or

cause Allied Riser to enter into any letter of intent, agreement in principle, acquisition agreement, or other similar agreement related to any takeover proposal.

Regardless of these restrictions, the Allied Riser board may terminate the merger agreement in response to a superior proposal:

which was not solicited by Allied Riser and which otherwise did not result from Allied Riser's breach of its related obligations and

after the second business day following Cogent's receipt of notice from Allied Riser advising Cogent that Allied Riser is prepared to accept a superior proposal, specifying the material terms and conditions of the superior proposal and identifying the person making the superior proposal.

In addition, regardless of these restrictions, Allied Riser may participate in discussions and negotiations with its noteholders, but it may not enter any agreement with, or make any payment to, its noteholders without Cogent's prior written consent.

Additional Agreements

Employee Benefits

After the merger, Cogent will provide for the continuation of healthcare benefits for those employees and former employees identified in a schedule to the merger agreement. These healthcare benefits will continue from each identified employee's termination date for the number of weeks specified in the relevant schedule. These healthcare benefits will be substantially similar to the benefits of each such employee prior to the effective time of the merger.

Prior to the effective time of the merger, Allied Riser will fully vest all remaining active participants in its 401(k) plan, and terminate this plan.

Insurance and Indemnification

After the merger, the surviving corporation will indemnify each person who is, or has been, a director or officer of Allied Riser with respect to all acts or omissions taken by them before the merger to the extent each such person, prior to the merger, was entitled to the benefit of indemnification agreements or the provisions of Allied Riser's certificate of incorporation and bylaws relating to indemnification.

For six years after the merger, the surviving corporation will maintain in effect (1) Allied Riser's and its subsidiaries' current directors' and officers' liability insurance covering acts or omissions occurring before the merger, and covering each person currently covered by this insurance, and (2) Allied Riser's and its subsidiaries' current fiduciary liability insurance covering acts or omissions occurring before the merger for employees who served as fiduciaries with respect to any of Allied Riser's employee benefits plans, in each case on terms with respect to coverage and amounts no less favorable than those in effect on August 28, 2001. The surviving corporation will not be required to pay, in total, an annual premium for the insurance described in this paragraph in excess of 200% of the current total annual premium Allied Riser pays for its existing coverage prior to the merger. If the annual premiums exceed that amount, the surviving corporation will be obligated to obtain a policy with coverage that may be obtained for that amount.

Fees and Expenses

Whether or not the merger is completed, we will share the expense of this proxy statement/prospectus and the SEC registration statement of which it is a part, and we will each pay all of our own other costs and expenses incurred in connection with the merger and the merger agreement, subject to the expense reimbursement and termination fee provisions described under " Termination Fee."

Listing or Nasdaq Quotation

Cogent and Allied Riser will use their reasonable best efforts to cause the shares of Cogent common stock issuable in the merger to be approved for quotation on the Nasdaq National Market or listing on a national securities exchange.

Affiliates

Allied Riser has agreed to deliver to Cogent a letter identifying all persons who may be, at the time of the special meeting, "affiliates" for purposes of Rule 145 under the Securities Act of 1933, as amended, or the Securities Act, and to use its reasonable best efforts to cause each of those affiliates to enter into a written agreement not to offer, sell, or otherwise dispose of any of the shares of Cogent common stock issued to them in the merger in violation of the Securities Act or the rules promulgated thereunder.

Director Designation

Cogent will appoint Michael R. Carper to its board of directors, subject to approval by Norwest Venture Partners VII, LP; Telecom Partners II and certain of its affiliates; and Crescendo World Fund, LLC and certain of its affiliates, immediately prior to the effective time of the merger.

Going Private Transaction

Cogent will not, for six months after the consummation of the merger, consummate a Rule 13e-3 transaction or acquire, directly or indirectly, more than 80% of the shares of Cogent common stock issued in the merger.

Reasonable Best Efforts

The merger agreement also contains additional covenants, including a covenant to use reasonable best efforts to take all actions, and to do all things, necessary, proper, or advisable to complete the merger, and the other transactions contemplated by the merger agreement, as promptly as practicable, including, among other things:

causing certain Allied Riser stockholders to enter into voting agreements with Cogent;

obtaining all necessary waivers, consents, or approvals by governmental entities;

obtaining all necessary waivers, consents, or approvals from third parties;

defending any lawsuits or legal proceedings that challenge the merger agreement; and

executing and delivering any additional instruments.

Conditions to Completion of the Merger

Each party's obligation to complete the merger is subject to satisfaction or waiver of the following conditions:

no court issues an order and no law is enacted which would make the completion of the merger illegal or otherwise prohibited;

the SEC declares effective Cogent's Form S-4 registration statement, of which this proxy statement/prospectus is a part;

the Nasdaq National Market or a national securities exchange, has approved for quotation or listing the shares of Cogent common stock to be issued in the merger, subject to official notice of issuance;

the representations and warranties made by the other party are true and correct in all material respects (except for representations and warranties qualified by materiality, which must be true and correct) as of the closing date except to the extent expressly made as of an earlier date, in which case as of that date;

the other party has performed in all material respects all agreements and covenants that it must perform under the merger agreement before the closing date; and

each has received an opinion from its legal counsel that (1) the merger will constitute a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and (2) each party will constitute a "party to a reorganization" within the meaning of Section 368(b) of the Internal Revenue Code.

Cogent's obligation to complete the merger is subject to the further conditions that:

it has received any required approval of its stockholders;

Allied Riser has obtained material consents required in connection with the merger; and

except as described in a schedule to the merger agreement, no litigation by or on behalf of holders of Allied Riser's securities that is reasonably likely to have a material adverse effect on the surviving corporation shall be pending or threatened against Allied Riser, its subsidiaries, or their respective officers or directors.

Allied Riser's obligation to complete the merger is subject to the further conditions that:

it has received the required approval of its stockholders;

Cogent has obtained material consents required in connection with the merger; and

Cogent has issued at least $62 million of Series C preferred stock for cash on substantially the terms set forth in the merger agreement.

Cogent and Allied Riser currently believe that it is likely that all of the conditions to the merger will be fulfilled. In the unlikely event that a condition is not fulfilled, the parties may, but would not be required to, waive the condition and complete the merger. If the waiver were to result in a material change in the terms of the merger, then Allied Riser would resolicit the votes of its stockholders to approve the merger.

Termination of the Merger Agreement

The merger agreement may be terminated, whether before or after receiving any stockholder approval:

by mutual written consent of Cogent and Allied Riser;

by either Cogent or Allied Riser:

if we do not complete the merger on or before December 7, 2001 or, if the SEC informs Cogent or Allied Riser that the SEC will review this proxy statement/prospectus, the earlier of January 31, 2002 and the 25th day after the effective date of this proxy statement/prospectus, except that a party may not terminate the agreement if its failure to fulfill its obligations results in the merger not being completed by that date;

if the Allied Riser stockholders do not adopt the merger agreement;

if Cogent does not obtain any authorization of stockholders required to consummate the transactions contemplated by the merger agreement;

if a law makes the merger illegal or a court or other government authority issues a final non-appealable ruling that permanently prohibits the completion of the merger, unless the party seeking to terminate the merger agreement has not used reasonable best efforts to prevent such law or ruling from becoming final and non-appealable;

if the other party has breached any of its representations, warranties, covenants, or agreements contained in the merger agreement, and the breach would result in the failure to satisfy one or more of the conditions to the merger, and the breach is incapable of being cured or, if capable of being cured, has not been cured within 30 days after written notice; or

if Cogent did not issue at least $62 million of its Series C preferred stock for cash on substantially the terms set forth in the merger agreement by October 17, 2001.

by Cogent, if Allied Riser or its subsidiaries or any of their respective directors or officers:

participates in discussions or negotiations in violation of its obligations not to solicit or encourage takeover proposals;

withdraws or modifies, or proposes publicly to withdraw or modify, in a manner adverse to Cogent, its approval or recommendation of the merger;

approves, recommends, or remains neutral to, or proposes publicly to approve, recommend, or remain neutral to, any takeover proposal; or

causes Allied Riser to enter into any letter of intent, agreement in principle, acquisition agreement, or other similar agreement related to any takeover proposal; and

by Allied Riser, if it has received a superior proposal and has complied with its obligations described in " No Solicitation," and has paid the termination fee described immediately below in " Termination Fee."

Termination Fee

Allied Riser must pay Cogent a $5,000,000 termination fee if:

Cogent terminates the merger agreement due to the fact that Allied Riser's breach of any of its covenants or agreements contained in the merger agreement would result in the failure to satisfy one or more of the conditions to the merger, and the breach is incapable of being cured or, if capable of being cured, has not been cured within 30 days after written notice;

Cogent terminates the merger agreement after Allied Riser or its subsidiaries or any of their respective directors or officers:

participates in discussions or negotiations in violation of its obligations not to solicit or encourage takeover proposals;

withdraws or modifies, or proposes publicly to withdraw or modify, in a manner adverse to Cogent, its approval or recommendation of the merger;

approves, recommends, or remains neutral to, or proposes publicly to approve, recommend, or remain neutral to, any takeover proposal; or

causes Allied Riser to enter into any letter of intent, agreement in principle, acquisition agreement, or other similar agreement related to any takeover proposal.

the merger has not been completed due to Allied Riser's failure to obtain a material consent it was required to obtain, and Cogent terminates the merger agreement because the merger has not been completed by December 7, 2001 or, if the SEC informs Cogent or Allied Riser that the SEC will review this proxy statement/prospectus, the earlier of January 31, 2002 and the 25th day after the effective date of this proxy statement/prospectus;

- Cogent terminates the merger agreement because Allied Riser's stockholders have not approved the merger at their stockholder meeting or any adjournment thereof; or

- Allied Riser terminates the merger agreement in response to a superior proposal.

Cogent must pay Allied Riser a $5,000,000 termination fee if:

- Allied Riser terminates the merger agreement due to the fact that Cogent's breach of any of its covenants or agreements contained in the merger agreement would result in the failure to satisfy one or more of the conditions to the merger, and the breach is incapable of being cured or, if capable of being cured, has not been cured within 30 days after written notice;

- the merger has not been completed due to Cogent's failure to obtain a material consent it was required to obtain, and Allied Riser terminates the merger agreement because the merger has not been completed by December 7, 2001 or, if the SEC informs Cogent or Allied Riser that the SEC will review this proxy statement/prospectus, the earlier of January 31, 2002 and the 25th day after the effective date of this proxy statement/prospectus;

- Allied Riser terminates the merger agreement because any required approval of Cogent's stockholders in connection with this transaction has not been obtained; or

- Allied Riser terminates the merger agreement due to Cogent's failure to satisfy the condition that it raise at least $30,000,000 in a private placement of Series C preferred stock.

Amendments, Extensions and Waivers

Amendments

The merger agreement may be amended by the parties at any time prior to the effective time of the merger. However, after Allied Riser stockholders approve the merger agreement and the merger or Cogent stockholders approve the merger agreement and the merger, no amendment may be made that requires further approval by stockholders under applicable law or the rules of any relevant stock exchange, without obtaining the required approval. All amendments to the merger agreement must be in writing and signed by each party.

Extensions and Waivers

At any time prior to the effective time of the merger, any party to the merger agreement may:

- extend the time for the performance of any of the obligations or other acts of the other parties to the merger agreement;

- waive any inaccuracies in the representations and warranties of the other parties contained in the merger agreement; and

- except as required by law, waive compliance by the other party with any of the agreements or conditions contained in the merger agreement.

All extensions and waivers must be in writing and signed by the party against whom the waiver is to be effective.

OTHER AGREEMENTS

Voting Agreements

Prior to the consummation date of the merger, certain significant holders of Allied Riser common stock who own, in the aggregate, approximately 26.6% of Allied Riser's common stock, specifically Norwest Venture Partners VII, LP, Telecom Partners II, LP, and Crescendo World Fund, LLC, executed and delivered agreements that each holder agrees to:

- attend Allied Riser's stockholder meeting in person or by proxy; and

- vote all Allied Riser shares it owns or has the right to vote in favor of adoption of the merger agreement and approval of the merger, and any other matters necessary to complete the merger.

In addition, until the termination of the merger agreement, its subsequent amendment in a material manner, or the consummation of the merger, each such holder of Allied Riser shares has agreed not to sell or pledge any such shares or voting interests therein.

MANAGEMENT OF COGENT FOLLOWING THE MERGER AND OTHER INFORMATION

Following the merger, the directors, executive officers, and other key employees of Cogent and their ages as of October 10, 2001 will be as follows:

Name	Age	Titles
David Schaeffer	45	Chairman and Chief Executive Officer
William Currer	53	President and Chief Operating Officer
H. Helen Lee	29	Chief Financial Officer and Director
Robert Beury	48	General Counsel
Barry Morris	42	Vice President of Sales
Scott Stewart	38	Vice President of Real Estate
Bradley Kummer	53	Chief Technology Officer and Vice President of Optical Transport
Neale D'Rozario	40	Chief Information Officer
Timothy O'Neill	45	Vice President of Engineering Construction
Mark Schleifer	32	Vice President of IP Engineering
Thaddeus Weed	40	Vice President, Controller
Edward Glassmeyer	60	Director
Erel Margalit	40	Director
James Wei	34	Director
Michael R. Carper	40	Director

We have listed below biographical information for each person who is expected to be a director, executive officer, or key employee following the merger.

David Schaeffer founded Cogent in August 1999 and is the Chairman and Chief Executive Officer. Prior to founding Cogent, Mr. Schaeffer was the founder of Pathnet, Inc., a broadband telecommunications provider, where he served as Chief Executive Officer from 1995 until 1997 and as Chairman from 1997 until 1999. On April 2, 2001, Pathnet, Inc. filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code.

William Currer joined Cogent in June 2000 as President and Chief Operating Officer. From 1991 to 1999, Mr. Currer served as Group President, Communication Systems for Andrew Corp., a wireless communications infrastructure technology company.

H. Helen Lee, the Company's Chief Financial Officer and a director, joined Cogent in November 2000. Prior to joining Cogent, Ms. Lee worked in the LBO group of the Audax Group, a private equity firm in Boston, MA in 2000. From 1997 to 1998 Ms. Lee worked at Pathnet Inc., directing financing and corporate development activities. From 1995 to 1997, Ms. Lee worked in the Telecom M&A/Advisory Group at J.P.

Morgan, where she participated in merger and acquisition transactions and advised on equity and high-yield offerings.

Robert Beury joined Cogent in September 2000 as General Counsel. Prior to joining Cogent, Mr. Beury served as Deputy General Counsel of Iridium LLC from 1994 to 2000. From 1987 to 1994 Mr. Beury was General Counsel of Virginia's Center for Innovative Technology, a non-profit corporation set up to develop the high tech industry in Virginia.

Barry Morris joined Cogent in April 2000 as Vice President of Sales. Mr. Morris has over 19 years of experience in the sale and complex integration of large data communication networks. From 1997 to 2000, Mr. Morris served as Senior Director of Sales for Nortel Networks where he managed a staff of pre- and post-sales engineers, account executives, and regional managers, and performed marketing and sales consulting duties. Preceding its acquisition by Nortel, Mr. Morris served as the Vice President of Sales for Bay Networks from 1994 to 1997 and as District Sales Manager for Synoptics prior to its acquisition by Bay Networks.

Scott Stewart joined Cogent in May 2000 as the Vice President of Real Estate. He is responsible for leading a team of professionals to build Cogent's nationwide network of multi-tenant office buildings. From 1999 to 2000, Mr. Stewart was a Vice President at Carlyle Realty, a division of The Carlyle Group, a multi-national private equity group based in Washington, D.C. From 1995 to 1999, Mr. Stewart directed the east-coast development program for Homestead Village, an extended stay hotel company and subsidiary of Security Capital Group. While there, Mr. Stewart was responsible for leading a team of 25 development professionals in the construction of 72 hotels in 18 cities. From 1993 to 1995, Mr. Stewart was the President and Founder of Potomac Land and Development Company, a Washington, D.C. metropolitan area real estate investment and consulting firm. From 1991 to 1993, Mr. Stewart was a Vice President and managed the Real Estate Owned properties of a Virginia based bank. Prior to then, Mr. Stewart served as a residential community developer in suburban Washington, D.C.

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

Neale D'Rozario joined Cogent in July 2000 and currently serves as Chief Information Officer. He is responsible for the Network Operations Center and Corporate Technology. From 1996 to 2000, Mr. D'Rozario was the Chief Information Officer for SunTrust Bank's investment banking division. While at SunTrust, Mr. D'Rozario was responsible for technology supporting equity and debt capital raising and trading activities. From 1991 to 1996, D'Rozario was the Global Managing Director of Technology for Barclays Bank, BZW Debt Capital Markets. There he was responsible software development, third party package integration network infrastructure. From 1986 to 1991 Mr. D'Rozario served as the Information Systems Manager at Salomon Brothers, Inc.

Timothy O'Neill joined Cogent in January 2001 as the Vice President of Engineering Construction. He is responsible for the network build-out and provisioning. From 1999 to 2001, Mr. O'Neill was employed at @Link Networks where he served as Chief Network Officer. While at @Link, Mr. O'Neill was responsible for engineering, implementing, and operating an integrated communications network. From 1998 to 1999, Mr. O'Neill was the Vice President of National Operations for NEXTLINK. His responsibilities included the NOC, network assurance, central office construction, provisioning, and engineering. Mr. O'Neill has also held senior management positions with Time Warner Communications and Internet Communications from 1994 to 1998.

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

Thaddeus Weed joined Cogent in February 2000 as Controller. From 1997 to 1999, Mr. Weed served as Senior Vice President of Finance and Treasurer at Transaction Network Services where Mr. Weed undertook a broad range of financial management responsibilities. These responsibilities included financial planning, forecasting, budgeting, financial modeling, acquisition, and international expansion strategies and pro-forma analyses. In 1999 he negotiated and completed the sale of Transaction Network Services to PSINet. From 1987 to 1997, Mr. Weed was employed at Arthur Andersen where he served as Senior Audit Manager, consulting on due diligence and operational improvement issues and performing audits of public and private entities.

Edward Glassmeyer has served on Cogent's board of directors since 2000. Mr. Glassmeyer was with Citicorp Venture Capital from 1968 to 1970, and The Sprout Capital Group where he was Managing Partner from 1971 to 1974. In 1973, he became a founding director of the National Venture Capital Association (NVCA). In 1978, he co-founded Oak Investment Partners, a venture capital firm. Since July 1996, he has been an Overseer of The Tuck School at Dartmouth College. Mr. Glassmeyer serves on the board of directors of a number of Oak portfolio companies supplying network equipment and services, including Apogee Networks, Movaz, Telica, and Tellium.

Erel Margalit has served on Cogent's board of directors since 2000. Mr. Margalit has been Managing General Partner of Jerusalem Venture Partners since August 1997. He was a general partner of Jerusalem Pacific Ventures from December 1993 to August 1997. From 1990 to 1993, Mr. Margalit was Director of Business Development of the City of Jerusalem. Mr. Margalit is a director of Paradigm Geophysical Ltd., Bridgewave Communications, Inc., CyOptics, Inc. First Access, Ltd., InLight Communications, Inc., KereniX, Inc., SANGate Systems, Inc., and Teleknowledge Group, Inc.

James Wei has served on Cogent's board of directors since 2000. He has been a general partner at Worldview Technology Partners, a venture capital firm, since April 1996. Prior to that, Mr. Wei was a Fund Manager at JAFCO Co., Ltd., a venture capital firm, from October 1991 through April 1996. Mr. Wei currently also serves on the boards of directors for Caly Networks, CommVerge Solutions, Edge2Net, iWorld Networking, Movaz Networks, Tensilica, 3ParData, Triton Network Systems, and Wellspring Solutions. He is also a General Partner of Meritech Capital Partners, a late stage venture capital fund with $1.8 billion under management.

Michael R. Carper has served as senior vice president and general counsel of Allied Riser since June 1999. From August 1995 to June 1999, Mr. Carper was assistant general counsel and assistant secretary of Nextel Communications. From August 1993 until July 1995, Mr. Carper was vice president and general counsel of OneComm Communications, which merged with Nextel. Prior to August 1993, Mr. Carper worked for Jones, Day, Reavis & Pogue, an international law firm, in its communications practice area. It is expected that Mr. Carper will serve as a director of Cogent and may also serve as a consultant to or employee of Cogent following the merger of Cogent and Allied Riser.

Board Composition

Our board of directors currently consists of six directors. Upon consummation of the merger, we will increase the board of directors by one member and we will divide the board of directors into three classes: Class I, whose term will expire at the annual meeting of stockholders to be held in 2002; Class II, whose term will expire at the annual meeting of stockholders to be held in 2003; and Class III, whose term will expire at the annual meeting of stockholders to be held in 2004. The initial Class I directors will be Helen Lee, the individual designated by the Series C Preferred Stockholders and the individual designated by Allied Riser prior to the effective time of the merger, the initial Class II directors will be James Wei and Edward Glassmeyer, and the initial Class III directors will be Erel Margalit and David Schaeffer. At each annual meeting of the stockholders beginning in 2002, the successors to the class of directors whose terms expired will be elected to serve three-year terms. If the number of directors on our board increases, the newly created directorships will be distributed among the three classes so that each class will, as nearly as possible, consist of one-third of the directors. The classification of our board of directors may delay or prevent changes in our control or management. Our directors may be removed either with or without cause at any meeting of Cogent's stockholders by a majority vote of those stockholders represented and entitled to vote at such meeting.

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Board Committees

Our board of directors has established an audit committee and a compensation committee. The audit committee consists of Messrs. Glassmeyer, Margalit, and Wei. The audit committee meets periodically with management and our independent accountants to review their work and confirm that they are properly discharging their respective responsibilities. The audit committee also:

- recommends the appointment of independent accountants to audit our financial statements and perform services related to the audit;

- reviews the scope and results of the audit with the independent accountants;

reviews with management and the independent accountants our annual operating results;

considers the adequacy of the internal accounting control procedures; and

considers the independence of our accountants.

The compensation committee consists of Messrs. Glassmeyer, Margalit, and Wei. The compensation committee determines the salary and incentive compensation of our officers and provides recommendations for the salaries and incentive compensation of our other employees. The compensation committee also administers our stock option plan and our employee stock purchase plan, including reviewing management recommendations with respect to option grants and taking other actions as may be required in connection with our compensation and incentive plans.

Compensation Committee Interlocks and Insider Participation

The compensation committee currently consists of Messrs. Glassmeyer, Margalit, and Wei. No current member of the compensation committee has been an officer or employee of ours at any time. None of our executive officers serve as a member of the board of directors or compensation committee of any other company that has one or more executive officers serving as a member of our board of directors, nor has such a relationship existed in the past.

Director Compensation

We generally do not compensate our board members for their participation on our board of directors. However, Ms. Lee received options to purchase 24,000 shares of Cogent common stock on February 8, 2000, as compensation for her service as a director prior to becoming chief financial officer.

Executive Compensation

Summary Compensation Table. The following table sets forth summary information concerning the compensation we paid during the fiscal year ended December 31, 2000 to our chief executive officer and each of our other four most highly compensated executive officers who were serving as executive officers at the end of fiscal year 2000 and whose compensation exceeded $100,000 for fiscal year 2000. We refer to these individuals as our named executive officers.

	Annual Compensation for Fiscal Year 2000		Long-Term Compensation for Fiscal Year 2000
			Awards
Name and Principal Position	Salary ($)	Bonus ($)	Securities Underlying Options/SARs (#)
David Schaeffer Chairman and CEO	$ 218,827	$	
William Currer President & COO	$ 227,500	$	600,000
Barry Morris VP Sales	$ 131,250	$ 45,000	300,000
Scott Stewart VP Real Estate	$ 115,318	$ 29,970	187,890

Option grants during Fiscal Year 2000. The following table sets forth information regarding options granted to our named executive officers during the fiscal year ended December 31, 2000. We recommend caution in interpreting the financial significance of the figures in the following table representing the potential realizable value of stock options. They are calculated by multiplying the number of options granted by the difference between potential realizable value of the fair market value of a share of our common stock based upon assumptions as to an annual rate of appreciation of the fair market value for the term of the option, and the option exercise price, and are shown pursuant to the rules of the SEC. They are not intended to forecast possible future appreciation, if any, of the stock price or establish a present value of options. Actual gains, if any, on stock option exercises will depend on the future performance of our common stock.

Name	Options Granted(1)	Percent of Total Options Granted to Employees In 2000	Exercise Price Per Share	Expiration Date	Potential Realizable Value At Assumed Annual Rates of Stock Appreciation for Option Term 5%	10%
William Currer	600,000	9.5%	$ 1.00	06/19/2010	$ 377,337	$ 956,245
Barry Morris	300,000	4.7%	$ 0.25	04/03/2010	$ 47,167	$ 119,531
Scott Stewart	185,000	2.9%	$ 0.25	05/23/2010	$ 29,086	$ 73,711
	2,890		$ 1.50	11/30/2010	$ 2,726	$ 6,909

(1) Mr. Currer's options vest quarterly over four years. Mr. Morris' options vested 16.7% on date of grant and the remainder vest quarterly over four years. Mr. Stewart has 14,452 options that vested on the date of grant and the remaining options vest quarterly over four years.

Aggregate Option Exercises in Fiscal Year 2000 and Year-end Option Values. The following table provides information about options held by named executive officers as of December 31, 2000. The value realized and the value of unexercised in-the-money options at year-end is based on the assumed

price of $1.50, less the exercise price per share, multiplied by the number of shares underlying the options.

Name	Shares Acquired On Exercise	Value Realized	Number of Securities Underlying Unexercised Options At Fiscal Year End: Exercisable	Unexercisable	Value of Unexercised In the Money Options At Year End: Exercisable	Unexercisable
William Currer			112,500	487,500	$ 56,250	$ 243,750
Barry Morris	50,000	$ 37,500	31,250	218,750	$ 39,063	$ 273,438
Scott Stewart	34,687	$ 43,359	14,452	138,751	$ 14,453	$ 173,439

Employment Agreements

David Schaeffer Employment Agreement. Dave Schaeffer has an employment agreement that provides for a minimum annual salary of $250,000 for his services as Chief Executive Officer. He also receives all of the company's standard employee benefits and a life insurance policy with a death benefit of $2 million. The initial term of his employment is through December 31, 2003. If he is discharged without cause or resigns for good reason, he is entitled to a lump sum amount equal to his annual salary at the time and continuation of his benefits for one year. If he is subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, he is entitled to additional payment to reimburse him for all taxes, up to a maximum additional payment of 20% of the amount subject to tax. The agreement also provides that failure to elect Mr. Schaeffer's designees to the board of directors, his right in the stockholder agreement, constitutes a material breach of his employment agreement.

William Currer Employment Agreement. William Currer's employment agreement provides for an annual salary of $300,000 for his services as Chief Operating Officer. The agreement entitles him to $300,000 and continuation of benefits for six months in the event that his employment with Cogent is terminated without cause or is constructively terminated. In the event of his termination as a result of a change of control, 50% of his then unvested stock options will vest immediately.

Barry Morris Employment Agreement. Barry Morris's employment agreement provides for an annual salary of $175,000 plus a bonus of $60,000 payable based on performance targets that are mutually agreeable to him and Cogent. In the event of his termination, other than by resignation, he is entitled to receive $87,500 and continuation of benefits for six months. In the event of his termination as a result of a change of control, 75% of his then unvested stock options will vest immediately.

Scott Stewart Employment Agreement. Scott Stewart's employment agreement provides for an annual salary of $145,000 plus a bonus of $45,000 payable based upon performance targets that are mutually agreeable to him and Cogent. In the event of his termination, other than by resignation, he is entitled to receive $108,750 and continuation of benefits for nine months. In the event of his termination as a result of a change of control, 50% of his then unvested stock options will vest immediately.

2000 Equity Plan

Our board of directors has adopted The Amended and Restated Cogent Communications Group, Inc. 2000 Equity Incentive Plan. The principal purpose of the equity plan is to attract, retain, and motivate selected officers, employees, consultants, and directors through the granting of stock-based compensation awards. The equity plan provides for a variety of compensation awards, including non-qualified stock options, incentive stock options that are within the meaning of Section 422 of the Internal Revenue Code, and stock purchase rights. A total of 14,900,000 shares of common stock are reserved for issuance under the equity plan, of which 5,364,981 shares have been granted, as of

September 30, 2001. We plan to increase the number of shares of stock reserved under the 2000 Equity Incentive Plan by 5 million shares before we consummate the merger.

Our board of directors, through the Compensation Committee, administers the equity plan with respect to all awards. The directors serving on our Compensation committee are all non-employee directors for purposes of Rule 16b-3 under the Exchange Act and are outside directors under Section 162(m) of the Internal Revenue Code. The full board administers the equity plan with respect to options granted to independent directors, if any.

The Compensation Committee sets the exercise price of the options it grants to employees at the perceived fair market value of the underlying Cogent common stock at the time of grant based upon the most recent round of equity financing completed by Cogent and the preferences and rights conferred to the investors in that financing, if any.

The equity plan provides that the Committee has the authority to select the employees and consultants to whom awards are to be made, to determine the number of shares to be subject to those awards and their terms and conditions, and to make all other determinations and to take all other actions necessary or advisable for the administration of the equity plan with respect to employees or consultants.

The committee and the board are authorized to adopt, amend, and rescind rules relating to the administration of the equity plan, and to amend, suspend, and terminate the equity plan. We have attempted to structure the equity plan in a manner such that remuneration attributable to stock options and other awards will not be subject to the deduction limitation contained in Section 162(m) of the Internal Revenue Code.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of shares of Cogent's capital stock as of December 31, 2001 by:

- each stockholder known to us to be a beneficial owner of more than 5% of any class of voting capital stock;
- each of our directors;
- each of our named executive officers; and

all of our executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares subject to options, warrants and securities convertible into common stock held by that person that are exercisable as of December 31, 2001 or exercisable within 60 days thereof are deemed outstanding. Except as indicated in the footnotes to this table, we believe that each stockholder named in the table has sole voting and investment power with respect to the shares set forth opposite such stockholder's name, except to the extent shared by a spouse under applicable law. This table is based on information supplied by officers, directors and principal stockholders. As of December 31, 2001, there were 109,681,326 shares of capital stock outstanding, of which 14,098,142 shares of common stock were outstanding, 26,000,000 shares of Class A preferred stock were outstanding, 19,809,783 shares of Class B preferred stock and 49,773,401 shares of Class C preferred stock were outstanding.

Unless otherwise noted, the address for each stockholder below is: c/o Cogent Communications Group, Inc., 1015 31st Street, N.W., Washington D.C. 20007.

	Common		**Preferred A**		**Preferred B**		**Preferred C**		
Name and Address	**Number of Shares**	**Percent of Class After the Offering**	**Number of Shares**	**Percent of Class After the Offering**	**Number of Shares**	**Percent of Class After the Offering**	**Number of Shares**	**Percent of Class After the Offering**	**Percent Voting Control(10)**
Entities affiliated with Jerusalem Ventures Partners Building One Mahla, Jerusulum 91487			9,250,000	35.6%	3,296,704	16.6%	16,042,352	32.2%	25.6%
Entities affiliated with Worldview Technology Partners 435 Tasso Street, #120 Palo Alto, CA 94301			9,250,000	35.6%	3,296,704	16.6%	9,625,411	19.3%	20.0%
Entities affiliated with Oak Investment Partners IX, LP One Gorham Island Westport, CT 06880			5,000,000	19.2%	4,395,604	22.2%	9,583,300	19.3%	17.6%
Entities affiliated with Boulder Ventures III, LP 4750 Ownings Mills Blvd. Ownings Mill, MD 21117			2,000,000	7.7%	659,340	3.3%	1,203,176	2.4%	3.5%
Entities affiliated with Broadview Capital Partners 435 Tasso Street, #120 Palo Alto, CA 94301					3,274,726	16.5%	4,439,721	8.9%	7.5%
Entities affiliated with Nassau Capital Partners					1,538,461	7.8%	2,205,823	4.4%	3.6%
ACON Venture Partners, LP 345 California Street Suite 3300					1,098,901	5.5%			1.2%

San Francisco, CA 94104									
SMALLCAP World Fund, Inc. 3000 K Street, NW Suite 230 Washington, D.C. 20007					1,098,901	5.5%	4,973,129	10.0%	5.5%
Cisco Systems Capital Corporation[11]	7,102,156	30.5%							5.8%
David Schaeffer[1]	15,195,667	65.3%					1,604,235	3.2%	14.5%
H. Helen Lee[2]	382,666	1.7%							*
Erel Margalit[3]			9,250,000	35.6%	3,296,704	16.6%	16,042,352	32.2%	25.6%
James Wei[4]			9,250,000	35.6%	3,296,704	16.6%	9,625,411	19.3%	20.0%
Edward Glassmeyer[5]			5,000,000	19.2%	4,395,604	22.2%	9,583,300	19.3%	17.6%
William Currer[6]	300,000	1.3%			21,978	*			*
Barry Morris[7]	167,144	*			2,637	*			*
Scott Stewart[8]	107,145	*			4,396	*			*
Directors and named executive officers as a group (8 persons)[9]	23,254,778	100%	23,500,000	90.4%	11,018,023	55.6%	36,855,298	74.0%	77.4%

* Less than 1%

(1) Includes 1,350,000 shares of common stock held by the Schaeffer Descendant's Trust. Mr. Schaeffer disclaims beneficial ownership of such shares. Includes 1,595,667 shares underlying currently exercisable options.

(2) Includes 341,333 shares underlying currently exercisable options.

(3) Includes 28,589,056 shares of preferred stock held by: (a) JVP III, LP, (b) JVP III (Israel) LP, (c) JVP Entrepreneurs Fund LP, (d) JVP IV, LP, (e) JVP-IV-A LP, and (f) JVP IV (Israel) LP, entities affiliated with Jerusalem Venture Partners, of which, Mr. Margalit is Managing General Partner. Mr. Margalit disclaims beneficial ownership of such shares.

(4) Includes 22,172,115 shares of preferred stock held by: (a) Worldview Technology Partners III, LP, (b) Worldview Technology International III, LP, (c) Worldview Strategy III, LP, (d) Worldview III Carrier Fund, LP, (e) Worldview Technology Partners IV, LP, (f) Worldview Technology International IV, LP, and (g) Worldview Strategy Partners IV, LP, entities affiliated with Worldview Technology Partners, of which, Mr. Wei is a general partner. Mr. Wei disclaims beneficial ownership of such shares.

(5) Includes 18,978,904 shares of preferred stock held by: Oak Investment Partners IX, LP, Oak IX Affiliates Fund, LP, and Oak IX Affiliates (Annex), LP. Mr. Glassmeyer disclaims beneficial ownership of such shares.

(6) Common shares include 300,000 shares underlying currently exercisable options.

(7) Common shares include 117,144 shares underlying currently exercisable options.

(8) Common shares include 49,334 shares underlying currently exercisable options.

(9) See footnotes (1) through (8) above. Consists of David Schaeffer, William Currer, H. Helen Lee, Barry Morris, Scott Stewart, Erel Margalit, James Wei, and Edward Glassmeyer.

(10) Based on beneficial ownership of shares, with preferred shares converted in accordance with the voting provisions of Cogent's Certificate of Incorporation, and assuming that all beneficially-owned shares only of the stockholder in question represent present voting interests.

(11) Constitutes the number of shares of common stock subject to warrants issued in connection with the credit facility described in "Information about Cogent Material Contracts."

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CERTAIN TRANSACTIONS

Cogent Headquarters Lease

We lease office space in Washington, D.C. from a partnership of which our Chairman and Chief Executive Officer, Dave Schaeffer, is the general partner. The annual rent for this space is approximately $368,000 and the lease expires August 31, 2002. We believe that this lease agreement is on terms at least as favorable to us as could have been obtained from an unaffiliated third party.

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PRICE RANGE OF COMMON STOCK AND DIVIDENDS

Allied Riser

Allied Riser common stock is listed on the Nasdaq National Market and traded under the symbol "ARCC." The following table sets forth, for the calendar quarters indicated, the high and low reported prices per share of Allied Riser common stock on the Nasdaq National Market reporting system. Allied Riser completed the initial public offering of its common stock in October 1999. Prior to October 29, 1999, no established public trading market for the common stock existed.

	Stock Price	
Calendar Year	**High**	**Low**
2001		
Fourth Quarter	$ 0.29	$ 0.06
Third Quarter	0.65	0.06
Second Quarter	1.59	0.40
First Quarter	4.50	1.25
2000		
Fourth Quarter	6.94	1.06
Third Quarter	16.00	4.56
Second Quarter	34.50	9.03
First Quarter	48.75	18.75
1999		
Fourth Quarter	26.13	15.12
Third Quarter		
Second Quarter		
First Quarter		

There were approximately 567 owners of record of Allied Riser common stock as of January 4, 2002.

On August 28, 2001, the last full trading day before the public announcement of the proposed merger, the high and low sale prices per share for Allied Riser common stock as reported on the Nasdaq National Market were $0.13 and $0.10, respectively. On January 4, 2002, the high and low sale prices per share for Allied Riser common stock as reported on the Nasdaq National Market were $0.19 and $0.16, respectively.

Allied Riser's common stock is traded on the Nasdaq National Market. In order for its common stock to continue to be listed on the Nasdaq National Market, Allied Riser must satisfy various listing requirements established by Nasdaq. On July 23, 2001, Allied Riser received a letter from Nasdaq advising Allied Riser that the minimum bid price of its stock had failed to comply with the continued listing standards of Nasdaq. On August 21, 2001, Allied Riser received a letter from Nasdaq advising Allied Riser that it had failed to comply with the minimum net tangible asset and the minimum stockholder's equity requirements for continued listing on Nasdaq. On September 5, 2001, Allied Riser transmitted a letter to Nasdaq addressing the issues raised in the July 23 and August 21 letters. On September 27, 2001, Nasdaq announced a moratorium on the minimum bid price and minimum market value of public float listing requirements until January 2, 2002, however, this announcement did not suspend Nasdaq's minimum net tangible asset and stockholder's equity listing requirements. On October 9, 2001, Allied Riser received a letter from Nasdaq citing the moratorium and declaring the matter initiated by the July 23 letter closed. With regard to the remaining issues, in response to the letter and materials submitted by Allied Riser on September 5, 2001, Allied Riser received a letter from Nasdaq on October 22, 2001, stating that Nasdaq would not initiate delisting proceedings for

failure to comply with the minimum net tangible asset and the minimum stockholder's equity requirements, so long as Allied Riser completes its proposed merger with Cogent on or before January 2, 2002 and, in connection therewith, requests a delisting from Nasdaq. If the merger is not completed by January 2, 2002, Allied Riser expects that Nasdaq will commence proceedings to delist Allied Riser's common stock. Allied Riser may appeal such decision, which, if properly and timely filed, would temporarily stay any delisting action, however, there is no assurance that Allied Riser's stock will remain listed. On January 3, 2002, Allied Riser requested that Nasdaq delay initiating any delisting proceedings until a date following the date the merger is expected to be consummated.

If Allied Riser's common stock is delisted and the trading price therefor continues to be less than $5.00 per share, trading in such common stock would be subject to certain rules promulgated under the Securities Exchange Act of 1934, which require additional disclosure by broker-dealers in connection with any trades involving "penny stock". The additional burdens imposed by broker-dealers may discourage broker-dealers from effecting transactions in Allied Riser's common stock. Delisting also could reduce the ability of the holders of Allied Riser's common stock to purchase or sell shares as quickly and inexpensively as they have done in the past. This lack of liquidity would make it more difficult for Allied Riser to raise cash in the future.

Allied Riser has not paid any dividends on its common stock since inception and does not anticipate paying any dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of the Allied Riser board of directors and will be dependent upon then existing conditions, including Allied Riser's financial condition, results of operations, contractual restrictions, capital requirements, business prospects, and other factors its board of directors deems relevant. See "Information About Allied Riser Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussions of the factors or restrictions that may affect Allied Riser's ability to pay dividends on its common stock.

Cogent

The capital stock of Cogent is not publicly traded, and no market information relating to its capital stock is available. Cogent will apply to have the Cogent common stock issued in the merger approved for quotation on the Nasdaq National Market or listing on a national securities exchange.

Cogent has not paid any dividends on its common stock since inception and does not anticipate paying any dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of the Cogent board of directors and will be dependent upon then existing conditions, including Cogent's financial condition, results of operations, contractual restrictions, capital requirements, business prospects, and other factors its board of directors deems relevant and is subject to the prior payment of 8% dividend to Series C preferred stock. See "Information About Cogent Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussions of the factors or restrictions that may limit Cogent's ability to pay dividends on its common stock.

INFORMATION ABOUT COGENT

Description of Business

Overview

We provide high speed Internet access and data communications to businesses, other telecommunications providers, application service providers, and Internet service providers located in large commercial office buildings in central business districts of major metropolitan markets. We offer Internet access at speeds of 100 megabits per second (Mbps) and 1 gigabit (or 1,000 megabits) per second (Gbps). We also offer other similar data communications products for point-to-point communication along our network. We currently have facilities for provision of our services in the following cities: Washington D.C., Philadelphia, New York, Boston, Chicago, Dallas, Denver, Los Angeles, San Francisco, Houston, Miami, Santa Clara, Atlanta, Orlando, Tampa, San Diego, Sacramento, Jacksonville, Kansas City and Seattle. We are currently serving customers in 16 of those cities.

We provide our services using a state of the art nationwide network that connects our customer's local area networks, or LANs, to our network and the Internet at speeds of 100 Mbps and 1Gbps. We have created our own nationwide inter-city facilities based network by acquiring rights to unlit fiber optic strands, or "dark fiber," connecting large metropolitan areas in the United States and metropolitan dark fiber rings within the cities we intend to serve. We have primarily used equipment from Cisco to "light," or activate, these dark fibers so that they are capable of carrying data at very high speeds. We physically connect our network to our customers by acquiring or constructing a connection between our metro rings and our customers' premises. As of November 15, 2001, Cogent had its broadband data network operating or constructed inside approximately 131 office buildings with more than 48 million rentable square feet and had agreements with real estate owners to install and operate its network in more than 900 office buildings totaling approximately 276 million rentable square feet.

Our network has been designed and created solely for the purpose of transmitting data packets using Internet protocol. This means that our network does not require elaborate and expensive equipment to route and manage voice traffic and data traffic using other transmission protocols, such as ATM and Frame Relay. In addition, we charge our customers a flat monthly rate without regard to the origination or destination of their data traffic. As a result, we are not required to purchase, install and operate the complex and expensive billing equipment and systems that are used in voice grade networks. Finally, our network interfaces with our customers using Ethernet technology, which is widely used within corporate LANs.

Our Solution

We believe that our network solutions effectively address many of the unmet communications needs of small- and medium-sized business customers by offering quality, performance, attractive pricing and service. Cogent allows customers to connect their corporate LANs to the public Internet at the same speeds and with the same Ethernet interface that they use within their LANs. Our solution is differentiated by:

Attractive price/performance alternative: Our network architecture allows us to offer Internet access to our customers in Cogent-served buildings at attractive prices. Our service provides customers with substantially more bandwidth at a lower cost than traditional high speed internet access.

Reliable service: We believe our network provides reliability at all levels through use of highly reliable optical technology. We use a ring structure in the majority of our network, which enables us to route customer traffic simultaneously in both directions around the network rings both at the metro

and national level. The availability of two data transmission paths around each ring acts as a backup, thereby minimizing loss of service in the event of equipment failure or damage.

Direct Customer Interface: Our solution does not require us to use existing local infrastructure controlled by the local incumbent telephone companies. We generally do not rely upon the local telephone company to provide connections to our customers and thereby have more control over our services and pricing. We expect that this effort reduces both our costs and the amount of time that it takes to connect customers to our network.

Deployment of cost effective and flexible technology: The 100 Mbps and 1 Gbps services can be deployed at comparatively lower incremental cost than other available technologies. We believe that our network infrastructure provides us with a competitive advantage over operators of existing networks that need to be upgraded to provide similar interactive bandwidth-intensive services. Ethernet represents the lowest cost interface available for data connectivity.

Our Network

Cogent's inter-city backbone network consists of two strands of optical fiber that Cogent has acquired from Williams Communications under a pre-paid indefeasible right of use (IRU). Cogent has the right to use the fiber for 20 years and may extend the term for two five-year periods without additional payment. Cogent pays Williams to maintain the fiber during the period of the IRU. The fiber route is 12,484 miles in length and runs through the metropolitan areas served by Cogent. As of November 15, 2001, all of the 12,484 miles of the route had been delivered by Williams to Cogent. Certain portions of Cogent's backbone network are currently provided by means of transmission capacity provided by Williams Communications. Cogent intends to replace this transmission capacity with fiber obtained under the IRU arrangement.

In each metropolitan area in which Cogent provides service the backbone network is connected to a router (purchased from Cisco Systems) that provides a connection to one or more metropolitan networks. The metropolitan networks also consist of dark fiber that runs from the backbone router into buildings served by Cogent. The metropolitan fiber in most cases runs in a ring through the buildings served. The ring provides redundancy so that if the fiber is cut data can still be transmitted to the backbone router by directing traffic in the opposite direction around the ring. Each building served by Cogent has a Cisco router connected to the metropolitan fiber. The router in the building provides the connection to each customer of Cogent in the building. In addition to connecting customers to Cogent's network the metropolitan networks are used to connect Cogent's network to the networks of other Internet service providers.

Inside its networked buildings, Cogent installs and manages a broadband data infrastructure that typically runs from the basement of the building to the top floor inside the building's vertical utility shaft. Service for customers is initiated by connecting a broadband data cable from a customer's local area network to the infrastructure in the vertical utility shaft. The customer then has dedicated and secure access to our network using Ethernet connections.

Market Opportunity

Increasing Internet usage is radically changing the way we obtain information, communicate, and conduct business. The demand for data and Internet services is projected to grow at a substantially greater pace than the voice market.

According to Dun & Bradstreet, there are approximately 1.8 million small and medium-sized businesses in the United States, which typically employ between 10 and 500 employees. While most large enterprises build or lease dedicated high speed networks and complex communications equipment, most small and medium-sized businesses, due to cost and network infrastructure constraints,

are not able to enjoy the levels of service and functionality that such facilities and equipment can provide. For example, the majority of small and medium-sized businesses access the Internet through relatively slow dial-up connections, often at speeds of 56,000 bits per second or less, or they may access this Internet through a dedicated private line typically transmitting data at 1.5 megabits per second. We believe that dedicated high speed connections to the Internet for small and medium-sized businesses will grow significantly over the next two years.

We are targeting this growing market segment by constructing our fiber- optic broadband networks in the office buildings in which many small and medium-sized businesses are located. We estimate that there are more than 2,800 office buildings sized larger than 100,000 square feet which host at minimum 20 unique tenants with an average of more than 40 tenants in the building, and within servable distance (a quarter of a mile) from a planned Cogent intra-city fiber ring.

Our Strategy

We intend to become a leading provider of high-capacity broadband access to our customers in large multi-tenanted buildings in commercial business districts of the 20 largest MSAs. To achieve this objective, we intend to:

Focus on most attractive markets and customers: We intend to build our customer base rapidly in our target markets. We target buildings that have high tenant count and limited broadband network access alternatives in dense commercial areas, which we believe will shorten the payback period on our investments. The value of Cogent's network and its ability to function both as a LAN-to-Internet and as a LAN-to-LAN network is enhanced by the number of cities which are connected to Cogent's network. However, Cogent must select markets in which network construction cost and customer acquisition costs provide for an attractive return based upon Cogent's product offering and pricing. The Cogent solution will not be available to all customers throughout the U.S. but rather will be offered on a selected basis.

Maintain a Simple pricing model: We offer our services at prices that are competitive with traditional Internet service providers. Pricing for T1 Internet access today is comprised of two components: (1) the local loop, which is purchased generally from the incumbent local exchange carrier (ILEC), or a competitive local exchange carrier (CLEC) and (2) the Internet port connection, which is typically provided by the Internet service provider. Our 100 megabits per second network access speed is substantially faster than typical connections offered by existing cable and telecommunications operators. We offer our 100 Mbps service at prices that can be lower than current prices for 1.5 Mbps service from traditional Internet service providers.

Target small- and medium-sized businesses with direct sales channel: The direct sales force is comprised of individuals who are geographically dispersed throughout each of Cogent's targeted markets. The retail sales effort is supported by an active program of direct mail and telesales, which is used to qualify potential leads for the field sales force. We directly market our services to our potential customers.

Pursue Aggressive peering strategy: In order to connect to the public Internet, Cogent today utilizes a combination of settlement free peering and purchased transit capacity. Cogent expects to reduce its transit purchase requirements as it accelerates its settlement free peering strategy. Cogent's network connects to other networks at 15 geographically dispersed points.

Our Competitors

We face competition from many established competitors with significantly greater financial resources, well-established brand names and large, existing installed customer bases. We also face competition from more recent entrants to the communications services market. Many of these

companies offer products and services that are similar to our products and services, and we expect the level of competition to intensify in the future. We believe that competition will be 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.

In each market we serve, we face, and expect to continue to face, significant competition from the incumbent carriers, which currently dominate the local telecommunications markets. We compete with the incumbent carriers in our markets for local exchange services on the basis of product offerings, quality, capacity and reliability of network facilities, state-of-the-art technology, price, route diversity, ease of ordering and customer service. However, the incumbent carriers have long-standing relationships with their customers and provide those customers with various transmission and switching services that we, in many cases, do not currently offer. 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.

In-building Competitors

Some competitors, such as Cypress Communications, XO Communications, Intellispace, Eureka, Everest Broadband and eLink, are attempting to gain access to office buildings in our target markets. Some of these competitors are seeking to develop exclusive relationships with building owners. To the extent these competitors are successful, we may face difficulties in building our networks and marketing our services within some of our target buildings. Our agreements to use utility shaft space within buildings are generally not exclusive. An owner of any of the buildings in which we have rights to install a network could also give similar rights to one of our competitors. Certain competitors already have rights to install networks in some of the buildings in which we have rights to install our networks. It will take a substantial amount of time to build networks in all the buildings in which we intend to exercise our rights under our license agreements and master license agreements. Each building in which we do not build a network is particularly vulnerable to competitors. It is not clear whether it will be profitable for two or more different companies to operate networks within the same building. Therefore, it is critical that we build our networks in additional buildings quickly. Once we have done so, if a competitor installs a network in the same building, there will likely be substantial price competition.

Local telephone companies

Incumbent local telephone companies, including regional Bell operating companies such as Verizon and BellSouth, have several competitive strengths which may place us at a competitive disadvantage. These competitive strengths include an established brand name and reputation and significant capital to rapidly deploy or leverage existing communications equipment and broadband networks. Competitive local telephone companies often market their services to tenants of buildings within our target markets and selectively construct in-building facilities.

Long distance companies

Many of the leading long distance companies, such as AT&T, MCI WorldCom and Sprint, could begin to build their own in-building voice and data networks. The newer national long distance carriers, such as Level 3, Qwest and Williams Communications, are building and managing high speed fiber-based national voice and data networks, partnering with Internet service providers, and may extend their networks by installing in-building facilities and equipment.

Competitive local telephone companies.

Competitive local telephone companies often have broadband inter-building connections, market their services to tenants of large and medium-sized buildings, and selectively build in-building facilities.

Fixed wireless service providers

Fixed wireless service providers, such as MCI WorldCom, XO Communications, Sprint, Terabeam, Teligent and Winstar, provide high speed communications services to customers using microwave or other facilities or satellite earth stations on building rooftops.

Internet service providers

Internet service providers, such as Concentric Networks, EarthLink, Genuity, Prodigy, PSINet, the UUNET subsidiary of MCI WorldCom, and Verio, provide traditional and high speed Internet access to residential and business customers, generally using the existing communications infrastructure. Digital subscriber line companies and/or their Internet service provider customers, such as AT&T and Covad, typically provide broadband Internet access using digital subscriber line technology, which enables data traffic to be transmitted over standard copper telephone lines at much higher speeds than these lines would normally allow. Providers, such as America Online, Microsoft Network, Prodigy and WebTV, generally target the residential market and provide Internet connectivity, ease-of-use and a stable environment for modem connections.

Cable-based service providers

Cable-based service providers, such as Excite@Home and its @Work subsidiary, High Speed Access, RCN Telecom Services and Road Runner, use cable television distribution systems to provide high capacity Internet access.

Other high-speed Internet service providers

We may also lose potential customers to other high-speed Internet service providers who offer similar high-speed Internet service. These include Yipes and Teleson, and are often characterized as Ethernet metropolitan access networks. These providers have targeted a similar customer base and have a strategy similar to ours.

Material Contracts

Agreements with Metromedia Fiber Networks

Cogent's largest supplier of intra-city fiber is Metromedia Fiber Networks, or MFN. Through an agreement with MFN, Cogent is required to purchase a minimum number of metropolitan fiber networks, located in many of Cogent's markets, and lateral fiber connections, which connect the metropolitan fiber networks to the buildings Cogent services. These metropolitan fiber networks connect to Cogent's metropolitan hub sites, providing the connection to Cogent's long-haul fiber backbone. Cogent's agreement with MFN has a term from 20 to 25 years, depending upon when certain minimum commitments are fulfilled, and can be extended for an additional term to be negotiated in good faith by MFN and Cogent. Through a recent amendment to their lease agreement, Cogent and MFN established a program whereby the parties expect to jointly fund the construction of new laterals into buildings and share in the proceeds from the sale of fiber strands in such laterals. This amendment also provides certain rights for Cogent to connect laterals constructed by Cogent to the MFN fiber rings. Under the agreement MFN also provides fiber maintenance and support of the metropolitan fiber networks. Through MFN's AboveNet facilities, Cogent has purchased a limited amount of transit capacity to gain connectivity to Internet service providers with whom Cogent does not currently have settlement-free peering.

Agreements with Williams Communications

Cogent's long-haul fiber backbone consists of two strands of optical fiber that Cogent has acquired from Williams Communications under a pre-paid indefeasible right of use ("IRU"). The IRU gives Cogent the right to use the fiber strands for 20 years and the right to extend the term for two five-year periods. Cogent will pay Williams to maintain the fiber during the period of the IRU. The fiber route is 12,484 miles in length and runs through all of the metropolitan areas served by Cogent. As of November 15, 2001 Williams had delivered all of the 12,484 miles of the route to Cogent. Cogent has also contracted with Williams Communications for:

- interim transmission capacity while it awaits delivery of certain segments of its fiber under the IRU agreement;
- services related to the installation of Cogent's equipment along the fiber route; and
- maintenance services.

Credit Agreement with Cisco Systems Capital Corporation

In October 2001, Cogent entered into an agreement with Cisco Systems Capital Corporation (Cisco Capital) under which Cisco Capital agreed to enter into a $409 million credit facility with Cogent. This credit facility supercedes and replaces the existing $310 million credit facility between Cisco Capital and Cogent. Borrowings under the credit facility will become available in increments subject to Cogent's satisfaction of certain operational and financial covenants over time. For loans outstanding prior to entering into the new facility, the applicable interest rate is LIBOR, or the London Interbank Offer Rate, plus 4.5% per annum. For loans issued after entering into the new facility, the applicable interest rate is LIBOR plus a margin ranging from 6.5% currently, down to 2.0%, depending upon Cogent's EBITDA or earnings before interest, taxes, depreciation and amortization and leverage ratio or its ratio of consolidated funded debt to EBITDA.

In connection with this agreement, Cogent granted to Cisco Capital rights which, together with the warrant issued to Cisco Capital under the previous credit agreement, will permit Cisco Capital to acquire up to 5% of the fully diluted common stock of Cogent. The $409 million credit facility will mature on December 31, 2008.

The credit facility is secured by the pledge of all of Cogent's assets and requires Cogent to comply with certain conditions, restrictions, and covenants, including revenue and other financial and operational targets. The credit facility also includes a closing fee, facility fee and a quarterly commitment fee on the underlying commitment. Borrowings are permitted to be prepaid at any time without penalty and are subject to mandatory prepayment based upon excess cash flow or, in certain circumstances, upon the receipt of proceeds from the sale of debt or equity securities of Cogent and other events, such as asset sales. Principal payments on the credit facility begin in March 2005 and will be completed by December 2008.

In connection with this agreement, Cogent agreed to pay Cisco the following fees:

- on or before the closing under the new facility, a closing fee equal to $1,980,000;
- a commitment fee equal to 1.00% per annum on the average daily unused portion of the then-available aggregate commitment; and
- a facility fee equal to $30,000 per quarter in which any amount of principal, interest or fees under the facility is payable.

Product and Service Agreement with Cisco Systems

Cogent has entered into an agreement with Cisco Systems, Inc. for the purchase of a total of $270 million of networking equipment for Cogent's network. As of September 30, 2001, Cogent had purchased $107.6 million against this commitment. Under this Cisco supply agreement, Cogent is obligated to purchase all of its networking equipment from Cisco until September 2003 and specified amounts through December 2004 unless Cisco cannot offer a competitive product at a reasonable price and on reasonable terms. If another supplier offers such products with material functionality or features that are not available from Cisco at a comparable price, Cogent may purchase those products from the other supplier, and such purchases will not be included in determining Cogent's compliance with Cisco minimum purchase obligations. The majority of Cogent's equipment has been obtained from Cisco.

The Cisco supply agreement provides for certain discounts against the list prices for Cisco equipment. The agreement also requires that Cogent meet certain minimum purchase requirements each year during the four-year initial term of the agreement, provided that Cisco is not in default under the credit facility between Cisco and Cogent. Cogent has satisfied the minimum requirement through December 31, 2001. For 2002, 2003 and 2004, Cogent must meet minimum purchase requirements of $29,500,000, $42,400,000 and $45,500,000, respectively. In addition, Cogent purchases from Cisco technical support and assistance with respect to the Cisco hardware and software purchased under the supply agreement.

Regulation

Cogent is subject to numerous local regulations such as building and electrical codes, licensing requirements, and construction requirements. These regulations vary on a city-by-city and county-by-county basis.

The FCC regulates common carriers' interstate services and state public utilities commissions exercise jurisdiction over intrastate basic telecommunications services. The FCC and most state public utility commissions do not regulate Internet service providers. The offerings of many of our competitors and vendors, especially incumbent local telephone companies, are subject to direct federal and state regulations. These regulations change from time to time in ways that are difficult for us to predict.

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

There have been various statutes, regulations, and court cases relating to liability of Internet service providers and other on-line service providers for information carried on or through their services or equipment, including in the areas of copyright, indecency/obscenity, defamation, and fraud. The laws in this area are unsettled and there may be new legislation and court decisions that may affect our services and expose us to liability. See "Risk Factors Legislation and government regulation could adversely affect us."

Employees

As of November 16, 2001, we had 151 employees.

Description of Properties

We own no material real property. Cogent is headquartered in facilities consisting of approximately 15,350 square feet in Washington, D.C., which it occupies under a lease that expires on August 31, 2002. Cogent also leases approximately 70,000 square feet of space in the metropolitan areas served to house the equipment that provides the connection between Cogent's backbone network and its

metropolitan networks. These metropolitan hub sites average 3,000 square feet in size. The terms of their leases generally are for 10 years with two 5 year renewal options, at annual rents ranging from $13.50 to $75.00 per square foot. We believe that our facilities are generally in good condition and suitable for our operations.

Legal Proceedings

Cogent is not a party to any material legal proceedings.

Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion together with the financial statements and related notes included elsewhere in the proxy statement/prospectus. The results below are not necessarily indicative of the results to be expected in any future period. Certain matters discussed below are forward-looking statements. See "Cautionary Statement Concerning Forward-Looking Statements."

General Overview

Cogent was formed on August 9, 1999 as a Delaware corporation. Our primary activities to date have included recruiting employees, obtaining financing, branding and marketing our products, obtaining customer orders, obtaining office building access rights, designing and constructing our fiber-optic network and facilities, and providing our services to customers.

We began invoicing our customers for our services in April 2001. We provide our high-speed Internet access service to our customers for a fixed monthly fee. We recognize service revenue in the month in which the service is provided. Cash received in advance of revenue earned is recorded as deferred revenue and recognized over the service period or, in the case of installation charges, over the estimated customer life.

As Cogent began to serve customers, we began to incur additional elements of network operations costs, including building access agreement fees, network maintenance costs and transit costs. Transit costs include the costs of transporting our customers' Internet traffic to and from the other networks that compose the Internet.

Recent Developments

Proposed Merger with Allied Riser Communications Corporation. On August 28, 2001, Cogent entered into an agreement to merge with Allied Riser Communications Corporation. Allied Riser is a facilities-based provider of broadband data, video and voice communication services to small- and medium-sized businesses in North America, including Canada. Under the terms of the merger agreement as amended on October 13, 2001, Cogent is expected to issue approximately 13.4% of its common stock, on a fully diluted basis, to the existing Allied Riser stockholders. The merger, if consummated, would require Cogent to assume the outstanding obligations of Allied Riser as of the closing date. As of September 30, 2001, these obligations include, among other things, $123.6 million of Allied Riser's convertible notes and approximately $107.6 million in commitments for operating and capital lease obligations. We expect this merger to close in the first quarter of 2002.

Acquisition of NetRail Inc. Assets. On September 6, 2001, Cogent acquired for approximately $12.0 million the major assets of NetRail, Inc. through a sale conducted under Chapter 11 of the United States Bankruptcy Code. The assets include certain customer contracts and the related accounts receivable, circuits, network equipment, and settlement-free peering arrangements with Tier-1 Internet service providers. We are in the process of integrating NetRail's facilities and traffic with our network. Cogent anticipates reduced costs of network operations from the availability of the Tier-1 peering arrangements of NetRail.

Reduction in Employment. On October 9, 2001, Cogent reduced its staff by approximately 50 employees and re-aligned portions of its organizational structure to streamline its operations and better focus its activities.

Sale of Series C Preferred Stock. On October 15, 2001, Cogent sold $62.0 million of its Series C preferred stock in a private transaction. Cogent issued approximately 49.7 million (pre-reverse split) shares of its Series C preferred stock in connection with this sale. In connection with the Series C preferred stock issuance, the conversion price of our Series B preferred stock was adjusted pursuant to the antidilution provisions of our amended and restated certificate of incorporation. The result will be that Series B preferred stock will be converted into approximately 5.8 million (pre-reverse split) additional shares of common stock of Cogent.

Results of Operations

Nine Months Ended September 30, 2001 Compared to the Nine Months Ended September 30, 2000

Revenue. Revenue for the nine-month period ending September 30, 2001 was $0.7 million compared to no revenue for the nine-month period ending September 30, 2000. We began invoicing our customers in April 2001. Revenue related to the customer contracts acquired in the NetRail acquisition was $0.2 million for the period from September 7, 2001 to September 30, 2001.

Network Operations. Network operations costs for the nine-month period ended September 30, 2001 were primarily comprised of five elements:

- temporary leased transmission capacity incurred for certain segments until its nationwide fiber-optic intercity network is placed in service;
- the cost of leased network equipment sites and facilities;
- salaries and related expenses of employees directly involved with Cogent's network activities;
- building access agreement fees paid to landlords; and
- maintenance charges related to Cogent's nationwide fiber-optic intercity network.

Cost of network operations was $15.5 million for the nine-month period ended September 30, 2001 compared to $0.6 million for the nine-month period ended September 30, 2000. Cogent believes that cost of network operations will increase as Cogent continues to construct its network, acquire additional office building access agreements, and service its customers. The cost of temporary leased transmission capacity was $3.9 million for the nine-month period ended September 30, 2001 compared to $0 in the nine-month period ended September 30, 2000. Certain of these costs will continue until the remaining segments of Cogent's nationwide fiber-optic intercity network are placed in service. Cogent anticipates that it will cancel the one remaining leased-line segment by December 2001. As these leased-line segments of the network were replaced with Cogent's dark fiber IRUs under capital leases, the related cost of network operations was replaced by an increase in depreciation and amortization expense. As of September 30, 2001 approximately 11,832 route miles of the 12,484 route miles had been delivered to Cogent.

Selling, General, and Administrative Expenses. Selling, general and administrative expenses, or SG&A, primarily include salaries and the related administrative costs associated with an increase in the number of employees. SG&A increased to $21.8 million for the nine-month period ended September 30, 2001 from $5.0 million for the nine-month period ending September 30, 2000. SG&A expenses increased primarily from an increase in employees and related expenses required to support Cogent's growth. We had 224 employees at September 30, 2001 versus 116 employees at September 30, 2000. Cogent capitalizes the salaries and related benefits of employees directly involved with its construction activities. Cogent began capitalizing these costs in July 2000 and will continue to capitalize these costs while its network is under construction. Cogent believes that SG&A expenses will increase

primarily due to the expected growth in the number of employees and related costs required to support its operations and customers.

Depreciation and Amortization. Depreciation and amortization expense increased to $6.0 million for the nine-month period ended September 30, 2001 from $0.09 million for the nine-month period ended September 30, 2000. These expenses represent the depreciation of the capital equipment required to support Cogent's network and increased because Cogent had more capital equipment in the nine-month period of 2001 than in the same period in 2000. Cogent begins the depreciation and amortization of its capital assets once the related assets are placed in service. Cogent believes that future depreciation and amortization expense will continue to increase due to the acquisition of additional network equipment and the amortization of Cogent's capital lease IRUs.

Interest Income and Expense. Interest income decreased to $1.6 million for the nine-month period ended September 30, 2001 from $2.1 million for the nine-month period ended September 30, 2000. Interest income relates to interest earned on Cogent's marketable securities. Cogent's marketable securities consisted of money market accounts and commercial paper all with original maturities of three months or less.

Interest expense increased to $4.8 million for the nine-month period ended September 30, 2001 from $0.4 million for the nine-month period ended September 30, 2000. For the nine-month period ended September 30, 2001, interest expense relates to interest charged on Cogent's borrowing on its vendor financing facility and its capital lease agreements. For the nine-month period ended September 30, 2000 interest expense relates to interest on its capital lease agreements and borrowing on its vendor financing facility. Cogent began borrowing under its credit facility with Cisco Capital in August 2000 and had borrowed $136.6 million at September 30, 2001. Borrowings accrue interest at the three-month LIBOR rate, established at the beginning of each calendar quarter, plus a stated margin. Cogent capitalized $4.1 million of interest for the nine-month period ended September 30, 2001 and $1.0 million for the nine-month period ended September 30, 2000. Cogent began capitalizing interest in July 2000 and will continue to capitalize interest expense while its network is under construction.

Income Taxes. Cogent recorded no income tax expense or benefit for the nine-month period ended September 30, 2001 or the nine-month period ended September 30, 2000. The federal and state net operating loss carryforwards of approximately $55.0 million at September 30, 2001 expire between 2019 and 2021. Due to the uncertainty surrounding the realization of this and its other deferred tax assets, Cogent has recorded a valuation allowance for the full amount of its net deferred tax asset. For federal and state tax purposes, Cogent's net operating loss carryforwards could be subject to certain limitations on annual utilization if certain changes in ownership were to occur as defined by federal and state tax laws. Should Cogent achieve profitability, its net deferred tax asset may be available to offset future income tax liabilities.

Earnings Per Share. Basic and diluted net loss per common share increased to $(3.23) for the nine-month period ended September 30, 2001 from $(0.29) for the nine-month period ended September 30, 2000. The weighted average shares of common stock outstanding increased to 14.0 million shares at September 30, 2001 from 13.9 million shares at September 30, 2000, due to exercises of options of Cogent's common stock. For the nine-months ended September 30, 2001 and 2000 options to purchase 6,121,481 and 4,185,991 shares of common stock at weighted average exercise prices of $1.05 and $0.82 per share, respectively, are not included in the computation of diluted earnings per share as they are anti-dilutive. As of September 30, 2001, 45.8 million shares of preferred stock, which are convertible into 45.8 million shares of common stock, and warrants exercisable for 866,250 shares of common stock were not included in the computation of diluted earnings per share as a result of their anti-dilutive effect. As of September 30, 2000, 45.8 million shares of preferred stock, which are convertible into 45.8 million shares of common stock, were not included in the computation of diluted earnings per share as a result of their anti-dilutive effect.

Year Ended December 31, 2000 Compared to the Period from Inception (August 9, 1999) to December 31, 1999

Revenue. We began recognizing revenue and invoicing our customers in April 2001. Therefore, there was no reported revenue for the year ended December 31, 2000 and the period from inception (August 9, 1999) to December 31, 1999.

Network Operations. Network operations costs for 2000 primarily included five elements:

- temporary leased transmission capacity costs;
- the cost of leased network equipment sites and facilities;
- salaries and related expenses of employees directly involved with Cogent's network activities;
- access agreement fees paid to landlords multi-tenant office buildings; and
- maintenance charges related to Cogent's nationwide fiber-optic intercity network.

The cost of network operations was $3.0 million in 2000 and there were no such costs in 1999. Cogent believes that cost of network operations will increase as Cogent continues to construct its network, acquire additional office building access agreements, and service its customers. The cost of temporary leased private-line transmission capacity was $0.9 million for 2000 and there were no such costs in 1999. Cogent anticipates canceling all of these leased-line segments by November 2001. As these leased-line segments of the network are replaced with Cogent's dark fiber IRUs under capital leases, the related cost of network operations is replaced by an increase in depreciation and amortization expense. As of December 31, 2000 approximately 5,100 route miles of the 12,484 route miles had been delivered to Cogent.

Selling, General, and Administrative Expenses. SG&A expenses increased from $0.08 million for the period from inception on August 9, 1999 to December 31, 1999 to $10.8 million in 2000. SG&A expenses increased primarily due to an increase in employees and related expenses required to support Cogent's growth. Cogent had 186 employees at December 31, 2000 versus three employees at December 31, 1999.

Depreciation and Amortization. Depreciation and amortization expense was $0.3 million in 2000 and there was no depreciation and amortization expense in 1999. These expenses represent the depreciation of the capital equipment required to support Cogent's network and there was no capital equipment in 1999. Cogent begins the depreciation and amortization of its capital assets once the related assets are placed in service and it believes that future depreciation and amortization expense will continue to increase due to the acquisition of additional network equipment and the amortization of Cogent's capital lease IRUs.

Interest Income and Expense. Interest income was $3.4 million in 2000 and there was no interest income in 1999. Interest income relates to interest earned on Cogent's marketable securities. Marketable securities at December 31, 2000 consisted of money market accounts and commercial paper all with original maturities of three months or less.

Interest expense was $1.1 million in 2000 and there was no interest expense in 1999. Interest expense relates to interest charged on Cogent's borrowing on a financing facility provided by Cisco Capital and capital lease agreements. Cogent began borrowing under its vendor credit facility in August 2000 and had borrowed $67.2 million at December 31, 2000. Borrowings accrue interest at the three-month LIBOR rate, established at the beginning of each calendar quarter, plus a stated margin. Cogent incurred $47.9 million of capital lease obligations in 2000 related to its 30-year IRUs to a nationwide fiber optic intercity network. Cogent capitalized $3.0 million of interest expense in 2000. Cogent will continue to capitalize interest expense while its network is under construction.

Income Taxes. Cogent recorded no income tax expense or benefit for 2000 or 1999. Cogent's federal and state net operating loss carryforwards of $9.6 million at December 31, 2000 expire between

2019 and 2020. Due to the uncertainty surrounding the realization of this and its other deferred tax assets, Cogent has recorded a valuation allowance for the full amount of its net deferred tax asset. Should Cogent achieve profitability, its net deferred tax asset may be available to offset future income tax liabilities. For federal and state tax purposes, Cogent's net operating loss carryforwards could be subject to certain limitations on annual utilization if certain changes in ownership were to occur as defined by federal and state tax laws.

Earnings Per Share. Basic and diluted net loss per common share increased to $(0.85) for 2000 from $(0.01) in 1999. The weighted average shares of common stock outstanding increased to 13.8 million shares at December 31, 2000 from 13.6 million shares at December 31, 1999, due to exercises of options for Cogent's common stock. For the years ended December 31, 2000 and 1999, options to purchase 6.9 million and 469,500 shares of common stock at weighted average exercise prices of $0.97 and $0.01 per share, respectively, are not included in the computation of diluted earnings per share as they are anti-dilutive. For the year ended December 31, 2000, 45.8 million shares of preferred stock, which are convertible into 45.8 million shares of common stock, were not included in the computation of diluted earnings per share as a result of their anti-dilutive effect. There was no preferred stock outstanding in 1999.

Liquidity and Capital Resources

Since inception, we have primarily funded our operations and capital expenditures through private equity financing, long-term debt, and equipment financing arrangements. As of October 31, 2001, we have raised $178 million of private equity funding, obtained a credit facility for borrowings of up to $409 million and have capital lease obligations outstanding at September 30, 2001 of approximately $19.5 million. Our current cash and cash equivalents position is an additional source of our liquidity.

Net Cash Provided by (Used in) Operating Activities. Net cash used in operating activities increased to $30.3 million for the nine-month period ending September 30, 2001 as compared to a use of $9.0 million for the nine-month period ending September 30, 2000. This increase is primarily due to an increase in the net loss to $45.4 million for the nine-month period ended September 30, 2001 from a net loss of $4.0 million for the nine-month period ended September 30, 2000. These net losses are offset by depreciation and amortization and changes in assets and liabilities of a positive $15.1 million and negative $5.0 million for the nine-month periods ended September 30, 2001 and September 30, 2000, respectively.

Net Cash Provided by (Used in) Investing Activities. Investing activities includes the purchases of property and equipment and for the nine-month period ended September 30, 2001, the purchase of the NetRail assets for $11.7 million. Purchases of property and equipment increased to $72.2 million for the nine-month period ending September 30, 2001 as compared to $36.7 million for the nine-month period ending September 30, 2000. The increase is primarily due to purchases of network equipment under the Cisco credit facility of $40.4 million and network construction costs of $30.0 million for the nine-month period ended September 30, 2001.

In March 2000, Cogent entered into a five-year commitment to purchase from Cisco minimum annual amounts of equipment, professional services and software. In June 2000, the agreement was amended to increase Cogent's previous commitment to purchase $150.1 million over four years to a commitment to purchase $212.2 million over five years. In October 2001, the commitment was amended to increase Cogent's previous commitment to purchase $270 million until December 31, 2004. As of September 30, 2001, Cogent has purchased approximately $107.6 million, towards this commitment.

Net Cash Provided by (Used in) Financing Activities. Financing activities provided $59.1 million for the nine-month period ending September 30, 2001 compared to $137.0 million for the nine-month

period ending September 30, 2000. Cogent received proceeds from borrowing $40.4 million in equipment loans and $29.0 million in a working capital loan under the credit facility for the nine-month period ended September 30, 2001. This working capital loan resulted in granting Cisco Capital warrants for 866,250 shares of common stock. The warrants have an exercise price of $3.04, and are exercisable for eight years. Borrowings under the credit facility for the nine-month period ended September 30, 2000 was $32.0 million of equipment loans. For the nine-month period ending September 30, 2000, Cogent received net proceeds of $116.0 million from the issuance of preferred stock. This included net proceeds of $25.9 million for the issuance of Series A preferred stock in February 2000 and $90.1 million from the proceeds of Series B preferred stock in June and July 2000. There were no issuances of preferred stock during the nine-month period ending September 30, 2001. The liquidation preferences at September 30, 2001 of the Series A and Series B preferred stock were $28.1 million and $95.7 million, respectively. Principal repayments of capital lease obligations was $10.3 million for the nine-month period ending September 30, 2001 as compared to $20.0 million for the nine-month period ended September 30, 2000.

On October 15, 2001, Cogent sold $62.0 million of its Series C preferred stock in a private transaction. In connection with the Series C preferred stock issuance, the conversion price of our of Series B preferred stock was adjusted pursuant to the antidilution provisions of our amended and restated certificate of incorporation. The result will be that Series B preferred stock will be converted into approximately 5.8 million (pre-reverse split) additional shares of common stock of Cogent.

Credit Facility. In October 2001, Cogent entered into an agreement with Cisco Systems Capital Corporation (Cisco Capital) under which Cisco Capital agreed to enter into a $409 million credit facility with Cogent. This credit facility supercedes and replaces the existing $310 million credit facility between Cisco Capital and Cogent. Borrowings under the credit facility will become available in increments subject to

Cogent's satisfaction of certain operational and financial covenants over time.

Changes to these covenants are currently being renegotiated between Cisco and Cogent, and will be agreed upon prior to the completion of the merger. The final covenants will be consistent with vendor financing between comparable parties in the current market. The current covenants are described in detail in Exhibit 10.3 to this registration statement and include the following:

Beginning on September 30, 2003, Cogent's ratio of consolidated funded debt to EBITDA must not exceed a maximum threshold. This maximum ratio begins at 52.6:1 on September 30, 2003 and declines by March 31, 2008 to 0.3:1.

Cogent must meet minimum revenue thresholds. From January 31, 2002 to May 31, 2002, Cogent must meet monthly revenue thresholds beginning at $755,000, and increasing to $1,855,000. Beginning on June 30, 2002, Cogent must meet quarterly thresholds of annualized revenue. These targets begin at $22,400,000 and gradually increase to $622,300,000 by December 31, 2007, and $556,700,000 thereafter.

Beginning June 30, 2002, Cogent must meet minimum EBITDA thresholds for the trailing four quarters. These thresholds begin at $(47,400,000) as of June 30, 2002, peaking at $227,000,000 as of June 30, 2005, before decreasing to $129,900,000 as of March 31, 2008 and thereafter.

Beginning December 31, 2003, Cogent's ratio of EBITDA to interest expense, measured as described in the agreement, must meet a minimum threshold for each quarter. This minimum ratio begins at 0.9:1 on September 30, 2003 and increases to 3.5:1 by September 30, 2004, before decreasing to 1.2:1 by June 30, 2006. After June 30, 2006, this threshold varies between 1.2:1 and 1.1:1.

Beginning June 30, 2002, Cogent's ratio of consolidated funded debt to capitalization must not exceed a maximum percentage, which starts at 71% as of June 30, 2002, and decreases to 50% as of June 30, 2007 and thereafter.

Cogent must meet minimum thresholds for customers counting as separate customers offices of any individual customers that are located in separate buildings. This threshold is 231 as of January 31, 2002, increasing to 22,370 by March 31, 2008.

Cogent must maintain minimum cash reserves, starting with $14,700,000 as of June 30, 2002. This minimum threshold varies each quarter until March 31, 2004, when it begins to increase gradually from $9,000,000 to $184,700,000 by March 31, 2008.

Cogent must meet minimum requirement for nodes connected to its network. This threshold is 162 as of January 31, 2002, increasing to 2,340 by March 31, 2008.

Cogent may not make capital expenditures on an annualized basis in excess of a maximum amount that varies for each year. This maximum amount is $63,100,000 for the year ending December 31, 2002, increasing to $106,700,000 by the year ending December 31, 2005, before decreasing to $70,400,000 for the year ended December 31, 2007 and thereafter.

For loans outstanding prior to entering into the new facility, the applicable interest rate is LIBOR, or the London Interbank Offer Rate, plus 4.5% per annum. For loans issued after entering into the new facility, the applicable interest rate is LIBOR plus a margin ranging from 6.5% currently, down to 2.0%, depending upon Cogent's EBITDA or earnings before interest, taxes, depreciation and amortization and leverage ratio or its ratio or consolidated funded debt to EBITDA.

In connection with this agreement, Cogent granted to Cisco Capital rights which, together with the warrant issued to Cisco Capital under the previous credit agreement, will permit Cisco Capital to acquire up to 5% of the fully diluted common stock of Cogent. The $409 million credit facility will mature on December 31, 2008.

The credit facility is secured by the pledge of all of Cogent's assets and requires Cogent to comply with certain conditions, restrictions, and covenants, including revenue and other financial and operational targets. The credit facility also includes a closing fee, facility fee and a quarterly commitment fee on the underlying commitment. Borrowings are permitted to be prepaid at any time without penalty and are subject to mandatory prepayment based upon excess cash flow or, in certain circumstances, upon the receipt of proceeds from the sale of debt or equity securities of Cogent, and other events, such as asset sales. Principal payments on the credit facility begin in March 2005 and will be completed by December 2008.

Cogent is currently in compliance with all conditions, restrictions, and covenants contained in the Cisco credit facility. Cogent expects to be in compliance with the Cisco Credit Facility at the time of the merger with Allied Riser, however, we anticipate that we will negotiate changes to the covenants with Cisco prior to the merger in order to obtain Cisco's consent to the merger. We anticipate that any changes to the covenants will be consistent with standard commercial terms for vendor financing provided to telecommunications and broadband carriers. The facility is only partially available until June 30, 2002 and, assuming we remain in compliance with the covenants on that date, the entire facility will be available, enabling us to fund our anticipated level of operations through the end of 2002. If the Cisco facility becomes unavailable we will not have sufficient funds to fund current or anticipated levels of operation through December 2002.

Product and Service Agreement with Cisco Systems Cogent has entered into an agreement with Cisco Systems, Inc. for the purchase of a total of $270 million of networking equipment for Cogent's network. As of September 30, 2001, Cogent had purchased $107.6 million against this commitment. Under this Cisco supply agreement, Cogent is obligated to purchase all of its networking equipment from Cisco until September 2003 and specified amounts through December 2004 unless Cisco cannot offer a competitive product at a reasonable price and on reasonable terms. If another supplier offers such products with material functionality or features that are not available from Cisco at a comparable price, Cogent may purchase those products from the other supplier, and such purchases will not be

included in determining Cogent's compliance with Cisco minimum purchase obligations. The majority of Cogent's equipment has been obtained from Cisco.

The Cisco supply agreement provides for certain discounts against the list prices for Cisco equipment. The agreement also requires that Cogent meet certain minimum purchase requirements each year during the four-year initial term of the agreement, provided that Cisco is not in default under the credit facility between Cisco and Cogent. Cogent has satisfied the minimum requirement through December 31, 2001. For 2002, 2003 and 2004, Cogent must meet minimum purchase requirements of $29,500,000, $42,400,000 and $45,500,000, respectively. In addition, Cogent purchases from Cisco technical support and assistance with respect to the Cisco hardware and software purchased under the supply agreement.

Future Capital Requirements Our future capital requirements will depend on a number of factors, including our success in increasing the number of customers and the number of buildings we serve, the expenses associated with the build-out of our network regulatory changes, competition, technological developments, potential merger and acquisition activity and the economy's ability to recover from the recent downturn. We believe our available liquidity resources, assuming the availability of our Cisco credit facility, will be sufficient to fund our operating needs at least through the end of our next fiscal year. We have based this estimate on assumptions that may prove wrong. For example, future capital requirements will change from current estimates to the extent to which we acquire or invest in businesses, assets, products and technologies. Our forecast of the period of time through which our financial resources will be adequate to support our operations and capital expenditures is a forward-looking statement that involves risks and uncertainties, and actual results could vary as a result of a number of factors, including those discussed in "Cautionary Statement Concerning Forward-Looking Statements." Until we can generate sufficient levels of cash from our operations, which we do not expect to achieve for several years, we will continue to rely on equity financing and our credit facility to provide us with our cash needs. We cannot assure you that this financing will be available on terms favorable to us or our stockholders. Insufficient funds may require us to delay or scale back the build-out of our network. If additional funds are raised by issuing equity securities, substantial dilution to existing stockholders may result.

Recent Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses financial accounting and reporting for business combinations. All business combinations in the scope of this Statement will be accounted for using the purchase method of accounting. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001, and business combinations accounted for by the purchase method for which the date of acquisition is July 1, 2001, or later. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. Under this Statement, goodwill will no longer be amortized but will be tested for impairment at least annually at the reporting unit level. Goodwill will be tested for impairment on an interim basis if an event occurs or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying value. Intangible assets which remain subject to amortization will be reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived

Assets to be Disposed Of." The provisions of SFAS No. 142 are required to be applied starting with fiscal years beginning after December 15, 2001. The proposed merger transaction with Allied, if consummated, will be accounted for in accordance with SFAS No. 141 and No. 142.

Quantitative and Qualitative Disclosures About Market Risk

Cogent has no financial instruments entered into for trading purposes. Cogent's primary market risk exposure is related to its marketable securities and credit facility. Cogent places its marketable securities investments in instruments that meet high credit quality standards as specified in Cogent's investment policy guidelines. Marketable securities were approximately $10.5 million at September 30, 2001, all of which are considered cash equivalents and mature in 90 days or less.

Cogent's credit facility provides for secured borrowings at the 90-day LIBOR rate plus a specified margin based upon Cogent's leverage ratio, as defined in the agreement. The interest rate resets on a quarterly basis and was 8.2% for the three-month period ended September 30, 2001. Interest payments are deferred and begin in 2005. Borrowings are secured by a pledge of all of Cogent's assets. The weighted average interest rate on all borrowings for the nine-month period ending September 30, 2001, was approximately 9.5%. The credit facility matures on December 31, 2008. Borrowings may be repaid at any time without penalty subject to minimum payment amounts.

If market rates were to increase immediately and uniformly by 10% from the level at September 30, 2001, the change to Cogent's interest sensitive assets and liabilities would have an immaterial effect on Cogent's financial position, results of operations and cash flows over the next fiscal year. A 10% increase in the weighted average interest rate for the nine-month period ended September 30, 2001 (from 9.5% to 10.5%) would increase interest for the period by approximately $650,000.

INFORMATION ABOUT ALLIED RISER

Description of Business

Allied Riser is a facilities-based provider of broadband data, video and voice communications services to small- and medium-sized businesses in North America, including Canada. Allied Riser suspended its retail services in most of its markets in the United States on September 21, 2001. Allied Riser is pursuing the provision of in-building wholesale services of its broadband data network.

The predecessor of Allied Riser, RCH Holdings, Inc., was formed in 1996. Allied Riser was formed on November 2, 1998, as a Delaware corporation. Immediately following the incorporation of Allied Riser, a reorganization of RCH Holdings, Inc. occurred. The wholly owned subsidiaries of RCH Holdings, Allied Riser Communications, Inc., and Carrier Direct, Inc., both Texas corporations, distributed their assets and liabilities to RCH Holdings in a complete liquidation and dissolution. Thereafter, RCH Holdings transferred all of its assets and liabilities to Allied Riser in exchange for shares of common stock. Allied Riser then contributed these assets and liabilities to its wholly owned subsidiary, Allied Riser Operations Corporation. In June 1997, Allied Riser began installing its network and began operating its first in-building network in January 1998. In 1998 Allied Riser sold equity to several sponsors and, in 1999, completed another round of private equity financing and signed agreements with owners and managers of significant real estate portfolios. In October 1999, Allied Riser completed an initial public offering of its common stock. During the third quarter of 2000, Allied Riser, through its wholly owned subsidiary, Allied Riser Canada, acquired 68% of the common stock of Shared Technologies of Canada, Inc (STOC). Pursuant to a shareholders agreement dated July 26, 2000 between Allied Riser and the minority shareholders in STOC, effective October 31, 2001, such minority shareholders have the right to cause Allied Riser to purchase their shares of STOC at a per share price determined by a formula described in the shareholders agreement. Such amount is not material to the financial position or results of operations of Allied Riser.

The principal executive office of Allied Riser is currently located at 1700 Pacific Avenue, Suite 400, Dallas, Texas 75201 and its telephone number is (214) 210-3000.

Facilities and Operations

Inside its constructed buildings, Allied Riser has installed a broadband data infrastructure that typically runs from the basement of the building to the top floor inside the building's vertical utility shaft. This broadband data infrastructure is designed to carry data and voice traffic for all the building's tenants. Service for customers is initiated by connecting a broadband data to the infrastructure in the vertical utility shaft.

Inside the building, usually in the basement, Allied Riser also establishes a building point-of-presence. In each building point-of-presence, it connects the broadband data cables to routers or other electronic equipment that enable transmission of data and video traffic to and from those cables. Allied Riser has obtained the right to use a small amount of space in the basement of buildings to establish the building point-of-presence.

Allied Riser's typical lease or license agreement with a real estate owner is for a term of ten or more years. The agreement provides for the development of the network installation design and the approval of the construction plans and arrangements by the real estate owner as well as ongoing reporting to the real estate owner of network expansion as Allied Riser adds customers and revenue sharing or fixed monthly rent.

Allied Riser, through its 68% owned subsidiary, Shared Technologies of Canada, Inc., continues to provide voice as well as retail high speed Internet access in Canada through its in-building network.

Competition

Allied Riser's market is extremely competitive and it faces competition from many entities with significantly greater financial resources, well-established brand names, and larger customer bases. Allied Riser expects significant competition from a variety of telecommunications companies including local, long distance, cable modem, Internet, digital subscriber line, microwave, mobile, and satellite data service providers. Because of their resources, some of Allied Riser's competitors may be able to offer services to customers at prices that are below the prices it can offer for comparable services, which impedes its ability to become profitable. Allied Riser will continue to face competition from other in-building service providers such as Cypress Communications, Intermedia Communications, RCN Communications, XO Communications, Teligent, Eureka/GGN, Everest, Winstar and Advanced Radio Telecom. These entities are all attempting to gain access to office buildings in its target markets. Allied Riser also faces competition from incumbent local and interexchange telephone companies that have competitive strengths, including an established brand name and reputation, significantly more capital, existing inter-building connections, and service offerings that include data and voice services. These competitive strengths may place Allied Riser at a competitive disadvantage.

Allied Riser faces competition for access to buildings, pricing for services, technological change, and demand for its services, all of which could adversely affect its operations. See "Risk Factors The sector in which we operate is highly competitive, and we may not be able to compete effectively."

Regulation

Allied Riser is subject to numerous local regulations such as building and electrical codes, licensing requirements, and construction requirements. These regulations vary on a city-by-city and county-by-county basis. There is no current legal requirement in a large majority of states that owners or managers of commercial office buildings give access to competitive providers of telecommunications services, but such laws and regulations have been proposed in the past and may be adopted in the future. The FCC issued its first order in a multi-phase regulatory proceeding on a number of issues related to utility shaft access in multiple tenant environments. Among other things, this order, which is the subject of a pending appeal:

- prohibits carriers from entering into contracts to serve commercial properties that restrict the property owner's ability to permit access by competing carriers;

- established procedures to facilitate the building owner's exercise of its option to acquire from the incumbent local telephone company inside wiring beginning where the wiring first enters the building;

- concluded that utilities (including local telephone companies) must afford telecommunications carriers, excluding incumbent local telephone companies and cable service providers reasonable and nondiscriminatory access to conduits and rights-of-way located in customer buildings and campuses and owned or controlled by the utility; and

- prohibits restrictions that impair the use of fixed wireless antennae on property within the exclusive use or control of an antenna user having a direct or indirect ownership or leasehold interest in the property.

The order also introduced the second phase of this proceeding, which seeks to determine a number of additional issues that could have an effect on our business. These issues include:

- whether the FCC should require nondiscriminatory access to multi-tenant office buildings (and whether it has the legal ability to do so);

- whether the FCC should enjoin the enforcement of exclusivity provisions in contracts entered into prior to its order; and

- whether the FCC should prohibit carriers from entering into contracts with building owners that give the carriers preferences other than exclusive access, such as exclusive marketing assistance.

The FCC has not released a decision on its proposed rulemaking. In addition, legislation has been introduced in the U.S. Congress that addresses issues relating to telecommunications access to buildings owned or used by the federal government and other building access issues. We cannot predict the outcome of the appeal of the FCC's first order, or the content of any future orders in the FCC proceedings, or any other federal or state proceeding, or of any federal or state legislation that may be applicable to us, or to our competitors, suppliers, or customers, nor what effect, if any, it may have on our business.

The FCC regulates common carriers' interstate services. State public utilities commissions exercise jurisdiction over intrastate basic telecommunications services, but we believe do not regulate most enhanced services, which involve more than the pure transmission of customer-provided information. The FCC has preempted certain inconsistent state regulation of, and does not itself regulate, enhanced services. We believe that all of the communications services that we currently provide are enhanced services and therefore not subject to direct regulation. 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.

Through subsidiaries, we are in the process of applying for, and have received in some states, authority from various state regulatory commissions and the FCC to provide basic telecommunications services, such as voice telephony service. These subsidiaries are or will be subject to direct state and federal regulation upon approval of their applications. We do not expect to encounter substantial legal barriers to entry into regulated telecommunications services. We also do not expect to face significant regulatory restrictions on the pricing or terms of any regulated telecommunications service offerings we might choose to offer that would have a material adverse effect on our business. Changes in the regulatory environment, however, could have a material adverse effect on our business.

The Telecommunications Act of 1996 substantially altered the federal and state regulatory environment for telecommunications services, including by removing legal barriers to entry, requiring incumbent local telephone companies to provide their competitors with interconnection, unbundled network elements, access to rights-of-way, conduit and ducts, and opportunities for resale of their services, all pursuant to detailed requirements that have been specified, and continue to be specified, by the FCC. Many of the FCC proceedings implementing the Telecommunications Act of 1996 remain pending or are the subject of appeals. The FCC has ruled on and is continuing to consider a number of proceedings related to the provision of advanced telecommunications services. In many cases, the FCC rules that have been enacted or are being considered in these proceedings are intended to spur the deployment of broadband transmission capabilities and advanced services, including digital subscriber line service. We believe the net result of these proceedings is and will be to enhance our competitors' ability to provide broadband services. The rules adopted by the FCC in this area, and the outcome of pending appeals, could have a material effect on our competitive position with regard to incumbent local telephone and other telecommunications companies.

The Telecommunications Act of 1996 also specified a procedure by which Bell companies could be allowed to provide in-region long distance services, something they were prohibited from doing prior to its passage. The FCC has granted Verizon's applications to provide long distance service in Connecticut, Massachusetts, New York, and Pennsylvania and SBC's applications to provide long distance services in Texas, Oklahoma, and Kansas. Similar applications are currently pending. In addition, legislation has been introduced to allow the Bell companies to provide long distance Internet and high-speed data services. We anticipate that eventually the Bell companies will be able to provide long distance services throughout all of their service areas.

There have been various statutes, regulations, and court cases relating to liability of Internet service providers and other on-line service providers for information carried on or through their services or equipment, including in the areas of copyright, indecency/obscenity, defamation, and fraud. The laws in this area are unsettled and there may be new legislation and court decisions that may affect our services and expose us to liability. See "Risk Factors Legislation and government regulation could adversely affect us."

We may in the future decide to provide voice services over the Internet. We believe that, under United States law, based on specific regulatory classifications and recent regulatory decisions, voice communications over the Internet currently constitute enhanced services (as opposed to regulated basic telecommunications services). As such, any such services we may provide are not currently regulated by the FCC or state agencies charged with regulating telecommunications carriers. Several efforts have been made in the United States to enact federal legislation that would either regulate or exempt from regulation communications services provided over the Internet. Several state regulatory authorities have initiated proceedings to examine the regulation of such services and Colorado's Public Utilities Commission has ruled that the use of the Internet to provide certain intrastate services does not exempt a carrier from paying intrastate access charges. Others could initiate proceedings to regulate or require access charges or other charges on the provision of voice services over the Internet. We cannot predict the outcome of any such proceedings or the effect it would have on our business should we decide to provide voice services over the Internet.

Employees

As of January 1, 2002, Allied Riser had 52 employees, including 35 employees of Shared Technologies of Canada, Inc., a 68% owned subsidiary of Allied Riser.

Description of Properties

Allied Riser is headquartered in facilities consisting of approximately 68,000 square feet in Dallas, Texas, which it occupies under a lease that expires in December 2003. In addition, Allied Riser is currently negotiating to terminate leases for space in which its engineering department, customer care center, and network operations center were located.

Legal Proceedings

On July 26, 2001, in a case titled *Hewlett-Packard Company v. Allied Riser Operations Corporation a/k/a Allied Riser Communications, Inc.,* Hewlett-Packard Company filed a complaint against a subsidiary of Allied Riser, Allied Riser Operations Corporation, in the 95th Judicial District Court, Dallas County, Texas, seeking damages of $18,775,000, attorneys' fees, interest, and punitive damages relating to various types of equipment allegedly ordered from Hewlett-Packard Company by Allied Riser Operations Corporation. Allied Riser believes this claim is without merit and has filed its answer generally denying Hewlett-Packard's claims. Allied Riser intends to vigorously contest this lawsuit.

Allied Riser announced on December 12, 2001 that certain holders of the Allied Riser 7.50% convertible subordinated notes due 2007 filed notices as a group with the SEC on Schedule 13D including copies of documents indicating that such group had filed suit on December 6, 2001 against Allied Riser and its board of directors alleging, among other things, breaches of fiduciary duties and requesting injunctive relief to prohibit Allied Riser's merger with Cogent, and alleging default by Allied Riser under the indenture related to the notes. Allied Riser believes that these claims are without merit.

Supplementary Financial Information (Unaudited)

The quarterly financial information for the calendar quarters in 1999, 2000, and 2001 set forth below has been derived from the unaudited consolidated financial statements of Allied Riser. The information should be read in connection with, and is qualified in its entirety by reference to Allied Riser's financial statements and the notes included elsewhere in this proxy statement/prospectus. The interim data reflect all adjustments that, in the opinion of management of Allied Riser, are necessary to present fairly such information for the interim periods. The results of operations of the quarterly periods are not necessarily indicative of the results expected for a full year or any interim period.

	Three Months Ended										
	Mar. 31, 1999	June 30, 1999	Sept. 30, 1999	Dec. 31, 1999	Mar. 31, 2000	June 30, 2000	Sept. 30, 2000	Dec. 31, 2000	Mar. 31, 2001	June 30, 2001	Sept. 30, 2001

	Three Months Ended										
	(In thousands, except per share data)										
Total revenue	$ 146	$ 401	$ 442	$ 881	$ 1,358	$ 1,972	$ 4,403	$ 6,599	$ 7,929	$ 8,573	$ 7,725
Operating income (loss)	(5,742)	(14,589)	(16,162)	(24,284)	(41,194)	(46,933)	(49,347)	(44,809)	(42,689)	(307,104)	(37,323)
Net income (loss)	(5,327)	(14,635)	(16,030)	(21,496)	(37,025)	(44,068)	(47,217)	(45,098)	(43,310)	(291,154)	(39,649)
Net income (loss) applicable to common stock	$ (6,977)	$ (16,285)	$ (18,270)	$ (22,408)	$ (37,025)	$ (44,068)	$ (47,217)	$ (45,098)	$ (43,310)	$ (291,154)	$ (39,649)
Net income (loss) per common share	$(.31)	$(.71)	$(.68)	$(.48)	$(.69)	$(.81)	$(.87)	$(.81)	$(.75)	$(4.82)	$(.66)
Weighted average number of shares outstanding	22,396	22,886	26,809	46,534	53,318	54,272	54,565	55,644	58,121	60,372	59,978

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Management's Discussion and Analysis of Financial Condition and Results of Operations

Allied Riser is a facilities-based provider of broadband data, video and voice communications services to small- and medium-sized businesses. Allied Riser suspended its retail services in most of its markets in the United States on September 21, 2001. Allied Riser is pursuing the provision of in-building wholesale services of its broadband data network.

On July 24, 2001, Allied Riser announced a number of additional initiatives to further reduce its operating costs and refocus its business plan. These initiatives were completed as of September 21, 2001, and included the suspension of retail sales of broadband data applications and services in most markets in the United States, the transition of its current retail customers to other service providers, the closure of its sales offices, and a further reduction in the number of employees by approximately 290 persons, or approximately 75% of its total workforce. Additionally, Allied Riser is pursuing the provision of in-building wholesale services of its broadband data network. As a result of the initiatives discussed above, Allied Riser expects revenue and related network costs and expenses to decline through the second quarter of 2002.

In connection with the initiatives described above, during the third and fourth quarters of 2001, Allied Riser sold four of the five data and communication service providers acquired by it in 2000. On August 7, 2001, Allied Riser sold its subsidiary, Winterlink, Inc. On September 14, 2001, Allied Riser sold substantially all of the assets and liabilities of its subsidiary, DirectCorporateLink.net, Inc. Allied Riser does not expect these transactions to have a material impact on the results of its ongoing operations.

On August 28, 2001, Allied Riser entered into a merger agreement with Cogent, which was subsequently amended on October 13, 2001, under which agreement all outstanding shares of Allied Riser common stock would be exchanged for shares of Cogent common stock. The merger is conditioned upon, among other things, approval by the stockholders of Allied Riser, the approval for listing or quotation of the shares of Cogent common stock to be issued in the merger on a national securities exchange or the Nasdaq National Market, and the receipt of material consents.

Recent Developments

On October 3, 2001, Allied Riser sold its subsidiary, Rockynet.com, Inc. and on October 4, 2001, Allied Riser sold all of the membership interests of its subsidiary, Netrox, L.L.C. Allied Riser does not expect these transactions to have a material impact on the results of its ongoing operations.

Allied Riser's common stock is traded on the Nasdaq National Market. In order for its common stock to continue to be listed on the Nasdaq National Market, Allied Riser must satisfy various listing requirements established by Nasdaq. On July 23, 2001, Allied Riser received a letter from Nasdaq advising Allied Riser that the minimum bid price of its stock had failed to comply with the continued listing standards of Nasdaq. On August 21, 2001, Allied Riser received a letter from Nasdaq advising Allied Riser that it had failed to comply with the minimum net tangible asset and the minimum stockholder's equity requirements for continued listing on Nasdaq. On September 5, 2001, Allied Riser transmitted a letter to Nasdaq addressing the issues raised in the July 23 and August 21 letters. On September 27, 2001, Nasdaq announced a moratorium on the minimum bid price and minimum market value of public float listing requirements until January 2, 2002, however, this announcement did not suspend Nasdaq's minimum net tangible asset and stockholder's equity listing requirements. On October 9, 2001, Allied Riser received a letter from Nasdaq citing the moratorium and declaring the matter initiated by July 23 letter closed. With regard to the remaining issues, in response to the letter and materials submitted by Allied Riser on September 5, 2001, Allied Riser received a letter from Nasdaq on October 22, 2001, stating that Nasdaq would not initiate delisting proceedings for failure to comply with the minimum net tangible asset and the minimum stockholder's equity requirements, so long as Allied Riser completes its proposed merger with Cogent on or before January 2, 2002 and, in

connection therewith, requests a delisting from Nasdaq. If the merger is not completed by January 2, 2002, Allied Riser expects that Nasdaq will commence proceedings to delist Allied Riser's common stock. Allied Riser may appeal such decision, which, if properly and timely filed, would temporarily stay any delisting action, however, there is no assurance that Allied Riser's stock will remain listed. On January 3, 2002, Allied Riser requested that Nasdaq delay initiating any delisting proceedings until a date following the date the merger is expected to be consummated.

If Allied Riser's common stock is delisted and the trading price therefor continues to be less than $5.00 per share, trading in such common stock would be subject to certain rules promulgated under the Securities Exchange Act of 1934, which require additional disclosure by broker-dealers in connection with any trades involving "penny stock". The additional burdens imposed by broker-dealers may discourage broker-dealers from effecting transactions in Allied Riser's common stock. Delisting also could reduce the ability of the holders of Allied Riser's common stock to purchase or sell shares as quickly and inexpensively as they have done in the past. This lack of liquidity would make it more difficult for Allied Riser to raise cash in the future.

On October 9, 2001, Allied Riser and its wholly owned subsidiary, Allied Riser Operations Corporation, entered into a settlement and mutual release agreement in connection with certain of its capital lease agreements. Pursuant to the terms of the settlement and mutual release agreement, in exchange for the payment of $12,500,000 by Allied Riser to the lessor, the lessor released Allied Riser and its subsidiaries from any and all obligations to the lessor and its affiliates under the capital lease agreement and under various maintenance agreements with respect to equipment leased by Allied Riser or its subsidiaries from the lessor. As of September 30, 2001, such obligations including all future interest were approximately $64,800,000. The title to the equipment subject to the capital lease agreements was transferred to Allied Riser pursuant to the settlement, and the lessor has agreed to release all liens on and security interests in such equipment.

On October 24, 2001, Allied Riser announced that it had notified 19 employees that their employment would be terminated within the next 60 days in contemplation of its pending merger with Cogent. The employees, who comprised approximately 26% of Allied Riser's workforce were terminated.

Allied Riser announced on December 12, 2001, that it had initiated the repurchase of certain of its 7.50% convertible subordinated notes due 2007 (the "notes") at a discount from the face value of the notes in limited open market or negotiated transactions. Allied Riser also announced that certain holders of the notes filed notices with the SEC on Schedule 13D including copies of documents indicating that such group had filed suit on December 6, 2001 against Allied Riser and its board of directors alleging, among other things, breaches of fiduciary duties and requesting injunctive relief to prohibit Allied Riser's merger with Cogent as a group, and alleging default by Allied Riser under the indenture related to the notes. Allied Riser believes that these claims are without merit.

Results of Operations

Three Months and Nine Months Ended September 30, 2001 Compared to Three Months and Nine Months Ended September 30, 2000.

Network Services Revenue. Network services revenue for the three months ended September 30, 2001, increased to $6,110,000 as compared to $3,351,000 for the three months ended September 30, 2000. Network services revenue for the nine months ended September 30, 2001, increased to $18,547,000 as compared to $6,161,000 for the nine months ended September 30, 2000. The increase in revenues is attributable to growth in the number of customers resulting from contributions of the businesses acquired in the second and third quarters of 2000, an increase in the number of buildings served, sales efforts concentrated in Allied Riser's networked properties and increased penetration of its broadband data network into new buildings, in each case, prior to the suspension of most of Allied

Riser's retail sales on September 21, 2001 and prior to the disposition of the acquired businesses in 2001. The acquired businesses accounted for approximately 34% and 37% of network services revenue for the three and nine month periods ended September 30, 2001, respectively. The majority of the network services revenue for the three and nine month periods ended September 30, 2001 was attributable to retail operations, and the disposed businesses accounted for approximately 14% and 18% of network services revenue for the three and nine month periods ended September 30, 2001.

Value Added Services Revenue. Value added services revenue for the three months ended September 30, 2001, increased to $1,615,000 as compared to $1,052,000 for the three months ended September 30, 2000. Value added services revenue for the nine months ended September 30, 2001, increased to $5,680,000 as compared to $1,572,000 for the nine months ended September 30, 2000. This increase is attributable to the contributions of the businesses acquired in the second and third quarters of 2000 and the expansion of Allied Riser's network and product offerings, in each case, prior to the suspension of most of its retail sales on September 21, 2001 and prior to the disposition of the acquired businesses in 2001. The acquired businesses accounted for approximately 85% and 82% of value added services revenue for the three and nine month periods ended September 30, 2001, respectively. The majority of the value added services revenue for the three and nine month periods ended September 30, 2001 was attributable to retail operations, and the disposed businesses accounted for approximately 81% and 76% of value added services revenue for the three and nine month periods ended September 30, 2001.

Network Operations. Network operations expense was $18,980,000 for the three months ended September 30, 2001, and $14,359,000 for the three months ended September 30, 2000. Network operations expense was $57,050,000 for the nine months ended September 30, 2001, and $30,365,000 for the nine months ended September 30, 2000. This increase is consistent with the expansion of Allied Riser's network and the resulting increase in transport, licensing, and customer costs.

Network operations expense includes net deferred compensation expense of $(157,000) for the three months ended September 30, 2001, and $194,000 for the three months ended September 30, 2000. Network operations expense includes net deferred compensation of $477,000 for the nine months ended September 30, 2001, and $707,000 for the nine months ended September 30, 2000. This decrease is attributable to the expense reduction previously recognized related to forfeited options and shares as a result of the reductions in force that were announced in October 2000, and February, May and July 2001.

Cost of Value Added Services. Cost of value added services was $1,399,000 for the three months ended September 30, 2001, and $716,000 for the three months ended September 30, 2000. Cost of value added services was $4,013,000 for the nine months ended September 30, 2001, and $1,101,000 for the nine months ended September 30, 2000. This increase is consistent with the increased growth in the number of customers utilizing these services and the acquisitions of businesses in the second and third quarters of 2000.

Selling Expense. Selling expense was $3,256,000 for the three months ended September 30, 2001, and $11,197,000 for the three months ended September 30, 2000. Selling expense was $19,062,000 for the nine months ended September 30, 2001, and $36,005,000 for the nine months ended September 30, 2000. This decrease is attributable to the more targeted approach Allied Riser used for its marketing and selling efforts focusing primarily at the specific buildings Allied Riser serves and the reduction of its sales efforts in anticipation of the suspension of most of its retail operations. In addition, Allied Riser adopted a more selective approach in its spending for development of brand awareness and promotional materials and for the establishment of sales demonstration centers.

Selling expense includes net deferred compensation expense of $(628,000) for the three months ended September 30, 2001, and $796,000 for the three months ended September 30, 2000. Selling

expense includes net deferred compensation of $1,484,000 for the nine months ended September 30, 2001, and $1,580,000 for the nine months ended September 30, 2000. This decrease is attributable to the expense reduction previously recognized related to forfeited options and shares as a result of the reductions in force that occurred in July 2001.

General and Administrative Expenses. General and administrative expenses were $14,833,000 for the three months ended September 30, 2001, and $16,993,000 for the three months ended September 30, 2000. General and administrative expenses were $36,397,000 for the nine months ended September 30, 2001, and $52,696,000 for the nine months ended September 30, 2000. This decrease reflects the reductions in force that were announced in October 2000 and February, May and July 2001 offset by the disposition of Allied Riser's subsidiaries during 2001. Allied Riser's number of general and administrative employees decreased to 63 at September 30, 2001, as compared to 416 at September 30, 2000.

General and administrative expense includes net deferred compensation expense of $(772,000) for the three months ended September 30, 2001, and $2,552,000 for the three months ended September 30, 2000. General and administrative expense includes net deferred compensation of $(616,000) for the nine months ended September 30, 2001, and $7,968,000 for the nine months ended September 30, 2000. This decrease is attributable to the expense reduction previously recognized related to forfeited options and shares as a result of the reductions in force that were announced in October 2000, and February, May and July 2001.

Depreciation and Amortization. Depreciation and amortization for the three months ended September 30, 2001, decreased to $6,580,000 as compared to $10,485,000 for the three months ended September 30, 2000. This decrease was primarily due to the asset write-down in the second quarter of 2001 offset by the accelerated depreciation for the discontinued use of certain software. Depreciation and amortization for the nine months ended September 30, 2001, increased to $32,484,000 as compared to $25,041,000 for the nine months ended September 30, 2000. This increase was primarily due to the increase in system infrastructure and system equipment placed in service, prior to the asset write-down in the second quarter of 2001.

Other Income (Expense). Other income (expense) was $(2,326,000) for the three months ended September 30, 2001, and $2,130,000 for the three months ended September 30, 2000. Other income (expense) was $(4,753,000) for the nine months ended September 30, 2001, and $9,165,000 for the nine months ended September 30, 2000. This change in other income (expense) is primarily due to the decrease in short-term investments and the interest expense resulting from the issuance of Allied Riser's 7.50% convertible subordinated notes due 2007 in the second quarter of 2000.

Income Tax Benefit. A tax benefit of $6,037,000 was recognized for the nine months ended September 30, 2001. The recognized benefit resulted from reversing a portion of Allied Riser's tax valuation allowance in connection with the realization of deferred net operating loss carryforwards as a result of the early extinguishment of a portion of the aggregate principal amount of its 7.50% convertible subordinated notes due 2007. Allied Riser expects to generate significant net losses for the foreseeable future which should generate net operating loss carry forwards all of which continue to be offset by a valuation allowance.

Extraordinary Item. An extraordinary gain of $11,718,000, net of $6,037,000 in income taxes, was recognized as a result of the early extinguishment of a portion of the aggregate principal amount of its 7.50% convertible subordinated notes due 2007.

Asset write-down. An asset write-down of $262,336,000 was recognized for the nine months ended September 30, 2001. This write-down is described further in Liquidity and Capital Resources.

Year Ended December 31, 2000, Compared to Year Ended December 31, 1999

Network Services Revenue. Network services revenue for the year ended December 31, 2000, increased to $10,969,000 as compared to $1,422,000 for the year ended December 31, 1999. The increase in revenues is attributable to growth in the number of customers resulting from increased sales and marketing efforts concentrated in Allied Riser's networked properties, the increased penetration of its broadband date network into new buildings, and the acquisition of two high-speed data communication companies. Additionally, the operations of Allied Riser Communications Corporation of Canada, Inc. ("ARC Canada"), a wholly owned subsidiary, resulted in increased network services revenue of $1,903,000 for the year ended December 31, 2000.

Value Added Services Revenue. Value added services revenue for the year ended December 31, 2000, increased to $3,363,000 as compared to $448,000 for the year ended December 31, 1999. This increase in revenue is attributable to growth in the number of customers resulting from increased sales and marketing efforts concentrated in Allied Riser's networked properties and the increased penetration of its broadband data network into new buildings, with the majority of the increase in revenue being the result of the acquisition of two professional services and data communication companies.

Network Operation Expense. Network operations expense was $43,389,000 for the year ended December 31, 2000, and $7,554,000 for the year ended December 31, 1999. This increase is consistent with the expansion of Allied Riser's network and the resulting increase in transport, licensing, and customer costs and the network operation expenses resulting from ARC Canada and the acquisition of two high-speed data communication companies.

Cost of Value Added Services. Cost of value added services was $2,356,000 for the year ended December 31, 2000, and $128,000 for the year ended December 31, 1999. The majority of this increase is the result of the acquisition of two professional services and data communication companies.

Selling Expense. Selling expense was $44,535,000 for the year ended December 31, 2000, and $9,296,000 for the year ended December 31, 1999. This increase is attributable to the expansion of sales and marketing efforts including commissions, development of corporate identification, promotional and advertising materials, the establishment of sales demonstration centers, market launch events and hiring sales personnel.

General and Administrative Expenses. General and administrative expenses were $60,763,000 for the year ended December 31, 2000, and $25,981,000 for the year ended December 31, 1999. This increase is consistent with the growth of Allied Riser's development activities and operating infrastructure construction. The number of general and administrative employees increased to 401 as of December 31, 2000, as compared to 283 at December 31, 1999.

Depreciation and Amortization. Depreciation and amortization for the year ended December 31, 2000, increased to $36,155,000 as compared to $5,007,000 for the year ended December 31, 1999. This increase was primarily due to the increase in system infrastructure and system equipment placed in service.

Amortization of Deferred Compensation. Amortization of deferred compensation was $9,418,000 for the year ended December 31, 2000, and $14,681,000 for the year ended December 31, 1999. This decrease is attributable to the accelerated amortization that occurred in 1999 as a result of employee equity awards vesting upon Allied Riser's initial public offering and the reduction in force that occurred in October 2000.

Other Income. Other income was $8,876,00 for the year ended December 31, 2000, and $3,289,000 for the year ended December 31, 1999. This change in other income is primarily due to an

increase in interest income generated by the proceeds Allied Riser received from its initial public offering and its convertible debt offering.

Provision for Income Taxes. For the years ended December 31, 2000, and December 31, 1999, no provision for taxes was recognized as Allied Riser operated at a loss throughout both periods. Allied Riser expects to generate significant net losses for the foreseeable future which should generate net operating loss carry forwards. No benefit for net operating carry forwards is being recognized.

Year Ended December 31, 1999, Compared to Year Ended December 31, 1998

Network Services Revenue. Network services revenue for the year ended December 31, 1999, increased to $1,422,000 as compared to $212,000 for the year ended December 31, 1998. The increase in revenues is attributable to growth in the number of customers resulting from increased sales and marketing efforts concentrated in Allied Riser's networked properties and the increased penetration of its broadband data network into new buildings.

Value Added Services Revenue. Value added services revenue was $448,000 for the year ended December 31, 1999, and $0 for the year ended December 31, 1998. This increase is attributable to the expansion of Allied Riser's broadband data network and product offerings.

Network Operations Expense. Network operations expense was $7,554,000 for the year ended December 31, 1999, and $2,358,000 for the year ended December 31, 1998. This increase is consistent with the expansion of Allied Riser's broadband date network and resulting increase in related costs.

Cost of Value Added Services. Cost of value added services was $128,000 for the year ended December 31, 1999, and $0 for the year ended December 31, 1998. This increase is attributable to the expansion of Allied Riser's broadband data network and product offerings.

Selling Expense. Selling expense was $9,296,000 for the year ended December 31, 1999, and $1,623,000 for the year ended December 31, 1998. This increase was attributable to the continued identification, establishment of sales demonstration centers, promotional and advertising materials and hiring sales personnel.

General and Administrative Expenses. General and administrative expenses were $25,981,000 for the year ended December 31, 1999, and $9,736,000 for the year ended to December 31, 1998. This increase is consistent with Allied Riser's development activities and is attributable to growth it experienced in the number of employees as a result of building its operating infrastructure. The number of general and administrative employees increased to 283 as of December 31, 1999, as compared to 85 at December 31, 1998.

Depreciation and Amortization. Deprecation and amortization for the year ended December 31, 1999, increased to $5,007,000 as compared to $499,000 for the year ended December 31, 1998. This increase was primarily due to the increase in system infrastructure and system equipment placed in service.

Amortization of Deferred Compensation. Amortization of deferred compensation was $14,681,000 for the year ended December 31, 1999, and $0 at December 31, 1998. This increase is attributable to amortization that occurred in 1999 as a result of Allied Riser's initial public offering.

Other Income (Expense). Other income (expense) was $3,289,000 for the year ended December 31, 1999, and $(606,000) for the year ended December 31, 1998. This change in other income (expense) is primarily attributable to an increase in interest income generated by the proceeds of Allied Riser's initial public offering.

Provision for Income Taxes. For the years ended December 31, 1999 and 1998, no provision for taxes was recognized as Allied Riser operated at a loss throughout both years. Allied Riser expects to generate significant net losses for the foreseeable future which should generate net operating loss carry forwards. No benefit for the net operating carry forwards is being recognized.

Year Ended December 31, 1998, Compared to Period From Inception (December 19, 1996) to December 31, 1997

Network Services Revenue. Network services revenue for the year ended December 31, 1998, was $212,000. Allied Riser's fiber-optic network began operation in January 1998. Accordingly, no revenue was recognized for the period from inception to December 31, 1997.

Network Operations Expense. Network operations expense was $2,358,000 for the year ended December 31, 1998, and $80,000 for the period from inception to December 31, 1997. This increase is consistent with the expansion of Allied Riser's fiber-optic network and resulting increase in related costs.

Selling Expense. Selling expense was $1,623,000 for the year ended December 31,1998. This expense was attributable to the initial deployment of Allied Riser's network and the related sales and marketing efforts, including development of its logo, establishment of sales demonstration centers, promotional and advertising materials and hiring sales personnel. Consistent with the initial deployment of its network in January 1998, Allied Riser had no selling expense in the period from inception to December 31, 1997.

General and Administrative Expenses. General and administrative expenses were $9,736,000 for the year ended December 31, 1998, and $1,348,00 for the period from inception to December 31, 1997. This increase is consistent with Allied Riser's development activities and is attributable to growth it experienced in the number of employees as a result of building its operating infrastructure. Allied Riser's number of general administrative employees increased to 85 as of December 31, 1998, as compared to 13 at December 31, 1997.

Depreciation and Amortization. Depreciation and amortization for the year ended December 31, 1998, was $499,000 as compared to $10,000 for the corresponding period of the prior year. This increase was attributable to the deployment of Allied Riser's system infrastructure and system equipment which commenced in January 1998.

Other Income (Expense). Other income (expense) was $(606,000) for the year ended December 31, 1998, and $(59,000) for the period from inception to December 31, 1997. The change in other income (expense) is primarily due to an increase in interest expense as a result of increased borrowing throughout 1998.

Provision for Income Taxes. For the year ended December 31, 1998, and the period from inception to December 31, 1997, no provision for taxes was recognized as Allied Riser operated at a loss throughout both periods. Allied Riser expects to generate significant net losses for the foreseeable future which should generate net operating loss carry forwards. No benefit for net operating carry forwards is being recognized.

Liquidity and Capital Resources

As of September 30, 2001, Allied Riser had cash and cash equivalents of $28,482,000 and short-term investments of $86,241,000.

Cash used in operating activities totaled $(61,679,000) and $(95,257,000) for the nine months ended September 30, 2000 and 2001, respectively. The expansion of Allied Riser's personnel, the

growth of its leased network, office space costs, and other growth-driven operating expenses were the principal contributors to the increase in the net cash outflow between the periods. Allied Riser expects this outflow to decrease as it implements its revised business plan and reduces the scope of its operations.

Cash (used in) provided by investing activities was $(98,545,000) and $118,663,000 for the nine months ended September 30, 2000 and 2001, respectively. During the nine months ended September 30, 2001, cash provided by investing activities was due to net proceeds from the sale of $125,865,000 in short-term investments and net proceeds from the sale of $121,000 in assets. These increases were offset by capital expenditures of $7,159,000, and $164,000 in acquisition costs for purchased companies. During the nine months ended September 30, 2000, cash used in investing activities was the result of capital expenditures of $79,748,000, the purchase of $4,099,000 in short-term investments, and $14,698,000 in acquisition costs for purchased companies.

Historically, Allied Riser has required significant capital to fund the construction and installation of its network within buildings and to purchase electronic equipment for installation in buildings and metropolitan points of presence. During the third quarter of 2001 and pursuant to its revised business plan, Allied Riser made capital expenditures of $161,000 as compared to capital expenditures of $36,354,000 in the third quarter of 2000. During the nine months ended September 30, 2001, Allied Riser made capital expenditures of $9,273,000 as compared to capital expenditures of $124,548,000 for the nine months ended September 30, 2000. Allied Riser's capital expenditures have totaled $204,380,000 since inception.

Cash provided by (used in) financing activities was $141,726,000 and $(24,342,000) for the nine months ending September 30, 2000 and 2001, respectively. Cash used by financing activities during the nine months ended September 30, 2001 was primarily for the payment of capital lease obligations and for the repurchase of certain of Allied Riser's 7.50% convertible subordinated notes due 2007. During the nine months ended September 30, 2000, cash provided by financing activities was primarily from Allied Riser's issuance and sale in a private placement of $150,000,000 aggregate principal amount of its 7.50% convertible subordinated notes due 2007, for net offering proceeds of approximately $145,003,000.

As of September 30, 2001, Allied Riser had operating lease obligations of $48,567,000, of which $11,200,000 is current and due during the next twelve months. During the third quarter, Allied Riser paid $705,000 to settle certain operating leases prior to their expiration, which terminated $2,962,000 in future obligations. Subsequent to September 30, Allied Riser paid $118,000 to settle additional operating leases prior to their expiration, which terminated $524,000 in future obligations. Allied Riser is continuing its efforts to terminate operating leases that are not needed in connection with its ongoing business as a result of initiatives commenced in the third quarter.

As of September 30, 2001, Allied Riser had capital lease obligations of $59,072,000, of which $35,883,000 is current and due during the next twelve months. On October 9, 2001, Allied Riser and its wholly owned subsidiary, Allied Riser Operations Corporation, entered into a settlement and mutual release agreement in connection with certain of its capital lease agreements. Pursuant to the terms of the settlement and mutual release agreement, in exchange for the payment of $12,500,000 by it to the lessor, the lessor released Allied Riser and its subsidiaries from any and all obligations to the lessor and its affiliates under the capital lease agreement and under various maintenance agreements with respect to equipment leased by Allied Riser or its subsidiaries from the lessor. As of September 30, 2001, such obligations including all future interest were approximately $64,800,000. The title to the equipment subject to the capital lease agreements was transferred to Allied Riser pursuant to the settlement, and the lessor has agreed to release all liens on and security interests in such equipment. Allied Riser has no written commitments for additional lease financing.

As of September 30, 2001, Allied Riser had committed to pay over the next five years to carriers under its existing connectivity contracts approximately $9,712,000, of which $5,685,000 is due during the next twelve months. During the third quarter, Allied Riser paid $565,000 to settle certain connectivity contracts prior to their expiration, which terminated $2,392,000 in future obligations. Subsequent to September 30, 2001, Allied Riser paid $921,000 to settle additional connectivity contracts prior to their expiration, which terminated $2,114,000 in future obligations. Allied Riser is continuing its efforts to terminate connectivity contracts that are not needed in connection with its ongoing business as a result of initiatives commenced in the third quarter.

On May 11, 2001, Allied Riser commenced a tender offer to purchase any and all of its 7.50% convertible subordinated notes due 2007 for a purchase price of $280 in cash per $1,000 of principal amount of notes, plus accrued but unpaid interest on the notes up to but excluding the date on which it deposited the funds with the depositary to purchase the accepted notes. On June 12, 2001, Allied Riser announced the completion of its tender offer, accepting for purchase $26,400,000 of the aggregate principal amount of the notes, representing approximately 17.6% of the $150,000,000 aggregate principal amount of notes outstanding prior to the tender offer. Allied Riser paid $8,360,000 in cash, including $968,000 for accrued but unpaid interest, to complete the tender offer. An extraordinary gain of $11,718,000, net of $6,037,000 in income taxes, was recognized as a result of the early extinguishment of the portion of the notes. The extraordinary gain also includes $486,000 of expenses incurred with the offer and a $767,000 write-off of associated debt issuance costs. Allied Riser's remaining interest payment in 2001, payable in shares of common stock or cash, will be approximately $4,635,000. Beyond 2001, Allied Riser's annual commitment for interest expense, payable in shares of common stock or cash, will be approximately $9,270,000.

During the second quarter of 2001, numerous adverse changes in Allied Riser's industry and the economic environment as a whole, including significant declines in valuation of competitive telecommunications providers, continued weakness in the demand for information technology and telecommunications services, and business failures of several prominent companies in markets similar to Allied Riser's caused Allied Riser to conclude that its prospects for future cash flows had weakened and its operating risks had increased. Additionally, during the second quarter of 2001, Allied Riser made certain changes in its operations. Both these external and internal changes triggered a review of long-lived assets, including building and network-related assets, real estate access rights, property and equipment, and goodwill. This review indicated that undiscounted cash flows expected to be generated by such assets were not sufficient to recover the historical book value of long-lived assets and that such assets should be reduced to fair value. As a result of its review, in the second quarter of 2001, Allied Riser recorded a write-down in the values of its building and network-related assets, real estate access rights, property and equipment, and goodwill.

Liquidity Assessment

As of September 30, 2001, cash and marketable securities totaled $114,723,000. As a result of the implementation of Allied Riser's revised business plan and additional cost savings initiatives announced on July 24, 2001, Allied Riser expects its future use of cash for capital expenditures, network sales and operations, and general and administrative expenses will be significantly lower than historical capital expenditures. The additional initiatives include the suspension, as of September 21, 2001, of retail sales of broadband data applications and services in most markets in the United States and the pursuit by Allied Riser of the provision of in-building wholesale services of its broadband data network. As a result of the suspension of retail operations and the current lack of significant sales of its wholesale services, operating revenues and related network costs and expenses will decline significantly after the third quarter. Allied Riser anticipates operating at a loss for the foreseeable future. The remaining cash, marketable securities and funds generated in its operations will be available to fund its operating expenses, debt service, and reduced capital requirements. Allied Riser believes that with the

implementation of the additional cost savings initiatives, its cash and marketable securities on hand and funds generated from operations will be sufficient to fund its revised business plan through 2002, although there can be no assurance in this regard. The current business plan does not contemplate the use of cash for construction of Allied Riser's network in additional buildings, the acquisition of additional real estate access rights, the repurchase of debt securities prior to due dates or for acquisitions of businesses. If Allied Riser's current business plan changes, additional funding may be required to fund Allied Riser's operations through 2002. Allied Riser periodically evaluates various equity and debt financing options, although Allied Riser has no commitments for additional financing and is unsure of its ability to obtain such additional financing at the times required and on terms and conditions acceptable to it. Allied Riser's future capital requirements are dependent on numerous factors, many of which it cannot control. These factors include (but are not limited to):

- its ability to provide wholesale services of its broadband data network and the margin on those services;
- its ability to suspend retail operations and manage its remaining operations in a cost efficient manner;
- the demand for wholesale services of its network and its remaining retail services;
- its ability to reduce expenses as part of its business plan without adversely affecting the delivery of its remaining network services;
- its ability to successfully negotiate the early termination of certain operating lease obligations and connectivity contracts;
- its ability to create internally or partner with others for new products or services and the ultimate demand for and margin on those products or services;
- its decision to use cash for early retirement of commitments and contingencies;
- its decision to make interest payments on any outstanding convertible subordinated notes in cash rather than equity;
- its decision to use cash to repurchase its debt securities;
- regulatory changes; and
- changes in technology and competitive developments.

Quantitative and Qualitative Disclosures About Market Risk

Allied Riser had $86,241,000 in short-term investments at September 30, 2001. The majority of its short-term investments are highly liquid, fixed-rate securities consisting primarily of U.S. Government and corporate securities with original maturities at date of purchase beyond three months and less than twelve months and are subject to interest rate risk. The value of these securities would decline in the event of increases in market interest rates. Allied Riser intends to hold these securities until maturity and may thus avoid the losses resulting from sudden changes in interest rates. Allied Riser does not have any derivative instruments nor does it attempt to hedge its market exposure because a majority of its investments are fixed-rate, short-term securities. Further declines in interest rates or other adverse market factors would reduce its interest income over time.

The convertible subordinated notes of Allied Riser provide a fixed 7.50% rate of interest. The fair value of the notes is sensitive to changes in interest rates.

Allied Riser conducts business in Canada through its Canadian subsidiary, for which the Canadian dollar is the functional currency. Accordingly, it is subject to exchange rate exposures arising from the translation and consolidation of the financial results of its Canadian subsidiary. Revenue from the

Canadian subsidiary represented approximately 17% of its total revenues for the nine months ended September 30, 2001. Exchange rate movements upon the consolidation of its Canadian subsidiary could affect its revenues, expenses, equity, and overall profitability (loss). There can be no assurance that future changes in currency exchange rates will not have an affect on its future cash collections or operating results. Allied Riser does not currently use derivative financial instruments to manage or hedge foreign currency exchange rate fluctuations.

Security Ownership of Principal Stockholders and Management

The following table sets forth information as of January 1, 2002, regarding the beneficial ownership of common stock by each stockholder known by us to be a beneficial owner of more than 5% of common stock, each director and executive officer of Allied Riser, and all directors and executive officers of Allied Riser as a group. The persons named in the table have sole voting and investment power with respect to all shares of common stock owned by them, unless otherwise noted. The percentage of beneficial ownership is based on 62,707,596 shares of common stock outstanding as of January 1, 2002.

Name of Beneficial Owner or Number of Persons in Group	Amount and Nature of Beneficial Ownership(1)	Percent of Class
Telecom Partners II (2) 4600 South Syracuse, Suite 1000 Denver, Colorado 80237	5,854,227	9.4%
Crescendo (3) c/o Crescendo Venture Management 800 LaSalle Avenue, Suite 2250 Minneapolis, Minnesota 55402	5,165,495	8.3%
Norwest Venture Partners VII, LP 245 Lytton Avenue, Suite 250 Palo Alto, California 94301	5,165,494	8.3%
GAMI Investments, Inc. (4) 3753 Howard Hughes Parkway, Suite 200 Las Vegas, Nevada 89109	3,795,842	6.1%
Quentin E. Bredeweg		*
Michael R. Carper (5)(6)	438,518	*
Terri L. Compton (5)(7)	334,435	*
Gerald K. Dinsmore (8)	1,333,333	*
Don Lynch (9)	69,444	*
R. David Spreng (10)	15,035	*
Blair P. Whitaker (11)	5,035	*
All executive officers and directors as a Group (7 persons)	2,195,800	3.4%

*

Less than 1%

(1) Pursuant to Rule 13d-3 under the Exchange Act, a person has beneficial ownership of any securities as to which such person, directly or indirectly, through any contract, arrangement, undertaking, relationship, or otherwise has or shares voting power and/or investment power or as to which such person has the right to acquire such voting and/or investment power within 60 days. Percentage of beneficial ownership as to any person as of a particular date is calculated by dividing the number of shares beneficially owned by such person by the sum of the number of shares outstanding as of such date and the number of unissued shares as to which such person has the right to acquire voting and/or investment power within 60 days. The number of shares

shown includes outstanding shares of common stock owned as of January 1, 2002, by the person indicated and shares underlying options owned by such person on January 1, 2002, that were exercisable within 60 days of that date. Based on a report on Schedule 13D/A filed on December 28, 2001 by certain holders of Allied Riser's 7.50% convertible subordinated notes due 2007, such holders are acting as a "group" for purposes of Rule 13d-3 and have rights to acquire approximately 5,487,374 shares of common stock of Allied Riser by converting the notes into common stock. Such shares of common stock into which the notes are convertible have not been included in determining the ownership percentages of each of the beneficial owners included in the above table.

(2) Based on a report on Schedule 13G/A filed on February 14, 2001, by Telecom Partners II, LP, its general partner Telecom Management II, LLC, Mr. Stephen W. Schovee, a director of Telecom Partners II and a managing member of Telecom Management II, and Mr. William J. Elsner, a former director of Telecom Partners II and a managing member of Telecom Management II, (a) each of Telecom Partners II and Telecom Management II has sole voting and investment power with respect to all shares reported as beneficially owned and (b) Mr. Schovee has shared voting and investment power with respect to those shares. The foregoing information has been included in reliance upon, and without independent verification of, the disclosures contained in the above-referenced report on Schedule 13G/A.

(3) Based on a report on Schedule 13G filed on February 14, 2001, the shares beneficially owned by the Crescendo affilates are held as follows: (a) each of Crescendo World Fund, LLC and Crescendo Ventures World Fund, LLC has shared voting and investment power as to 985,887 of such shares; (b) Eagle Venture WF, LLC has shared voting and investment power as to 47,213 of such shares; each of Crescendo III, LP and Crescendo Ventures III, LLC has shared voting and investment power with respect to 3,934,421 of such shares; each of Crescendo III Executive Fund, L.P. and Crescendo Ventures III has shared voting and investment power with respect to 116,851 of such shares; and each of Crescendo III GbR, LLC and Crescendo Ventures III has shared voting and investment power with respect to 81,123 of such shares. The foregoing information has been included in reliance upon, and without independent verification of, the disclosures contained in the above-referenced report on Schedule 13G.

(4) Based on a report on Schedule 13G filed on November 9, 2001, by GAMI Investments, Inc., GAMI Investments, Inc. has sole voting and investment power with respect to all shares reported as beneficially owned. The foregoing information has been included in reliance upon, and without independent verification of, the disclosures contained in the above-referenced report on Schedule 13G.

(5) Includes 279,351 shares of restricted stock issued to Mr. Carper as to which the restrictions have not lapsed. Includes 12,684 and 1,102 shares of unrestricted stock that were awarded to Mr. Carper and Ms. Compton, respectively, in the first quarter of 2001. Each of the preceding persons has sole voting and investment power with respect to the shares that he or she owns.

(6) Includes 159,167 shares underlying currently exercisable options.

(7) Includes 133,333 shares underlying currently exercisable options.

(8) Includes 333,333 shares underlying currently exercisable options.

(9) Includes 69,444 shares underlying currently exercisable options.

(10)

Excludes 5,165,495 shares of common stock beneficially owned by Crescendo of which Mr. Spreng is the managing partner. Based on a report on Schedule 13G filed on February 14, 2001, the shares beneficially owned by the Crescendo affiliates are held as follows: (a) each of Crescendo World Fund, LLC and Crescendo Ventures World Fund, LLC has shared voting and investment power as to 985,887 of such shares; (b) Eagle Venture WF, LLC has shared voting and investment

power as to 47,213 of such shares; each of Crescendo III, LP and Crescendo Ventures III, LLC has shared voting and investment power with respect to 3,934,421 of such shares; each of Crescendo III Executive Fund, L.P. and Crescendo Ventures III has shared voting and investment power with respect 116,851 of such shares; and each of Crescendo III GbR, LLC and Crescendo Ventures III has shared voting and investment power with respect to 81,123 of such shares. The foregoing information has been included in reliance upon, and without independent verification of, the disclosures contained in the above-referenced report on Schedule 13G. Mr. Spreng has disclaimed beneficial ownership of these shares. Includes 4,688 shares underlying currently exercisable options.

(11)

Excludes 5,165,494 shares of common stock beneficially owned by Norwest Venture Partners VII, LP, of which Mr. Whitaker is the general partner. Mr. Whitaker has disclaimed beneficial ownership with respect to these shares. Includes 4,688 shares underlying currently exercisable options.

DESCRIPTION OF COGENT CAPITAL STOCK

As a result of the merger, Allied Riser stockholders will become Cogent stockholders. Your rights as a Cogent stockholder will be governed by Delaware law, Cogent's Second Amended and Restated Certificate of Incorporation, and Cogent's bylaws. The following description of Cogent's capital stock, including the Cogent common stock to be issued in the merger, reflects the anticipated state of affairs at the completion of the merger.

The description summarizes the material terms of Cogent's capital stock but does not purport to be complete, and is qualified in its entirety by reference to the applicable provisions of Delaware law, Cogent's certificate of incorporation, and bylaws.

General

Cogent's authorized capital stock after the merger will consist of 211,000,000 shares of common stock, par value $.001 per share, 98,137,643 shares of preferred stock, par value $.001 per share, 26,000,000 of which shall be designated as Series A participating convertible preferred stock, 20,000,000 of which shall be designated as Series B participating convertible preferred stock, and 52,137,643 of which shall be designated as Series C participating convertible preferred stock.

Cogent Common Stock

Holders of common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Holders of common stock are entitled to receive ratably such dividends as may be declared by the board of directors subject to any preferential dividend rights of outstanding preferred stock. Upon the liquidation, dissolution, or winding up of Cogent, the holders of common stock are entitled to receive ratably the net assets of Cogent available after the payment of all debts and liabilities and subject to the prior rights of any outstanding preferred stock including the Series A, B, and C preferred stock. Holders of the common stock have no preemptive, subscription, redemption, or conversion rights. The shares of Cogent common stock that will be issued in the merger will be duly authorized, validly issued, fully paid, and nonassessable.

Cogent Preferred Stock

Voting

Holders of preferred stock are entitled to vote together with holders of common stock at annual or special meetings of stockholders and may act by written consent in the same manner as holders of common stock upon the following basis: each holder of a share of preferred stock will be entitled to one vote for each share of common stock such holder would receive upon conversion of such share of preferred stock into common stock. Notwithstanding the foregoing, holders of Series A preferred stock shall have the authority to elect two of the members of Cogent's board of directors, holders of Series B preferred stock shall have the authority to elect one of the members of Cogent's board of directors, and holders of Series C preferred stock shall have the authority to elect one of the members of Cogent's board of directors.

So long as 29,441,293 shares of preferred stock are outstanding, the affirmative vote or consent of the holders of two-thirds of the issued and outstanding shares of preferred stock, voting together as a single class, is required for certain corporate actions including the declaration of any dividends, the merger, consolidation, dissolution, liquidation, or sale of the company, and the increase or decrease in the aggregate number of authorized shares of common or preferred stock.

Liquidation and Dividend Preferences

Upon any liquidation of Cogent, holders of Cogent's Series A, B, and C preferred stock are entitled to receive certain preferences to holders of Cogent common stock. In the event of a liquidation, before holders of common stock receive any distribution, holders of Series A, B, and C preferred stock will receive payments particular to each series as set forth in the certificate of incorporation.

Holders of Series C preferred stock shall be entitled to receive, when and as declared by the board of directors, cash dividends at a rate of 8% of the original Series C preferred stock purchase price per annum on each outstanding share of Series C preferred stock. Any partial payment will be made ratably among the holders of Series C preferred stock. Except for acquisitions of common stock by Cogent pursuant to agreements which permit the company to repurchase such shares at cost upon termination of services to the company or acquisitions of common stock in exercise of Cogent's right of first refusal to repurchase such shares, Cogent may not declare any dividends or make any other distribution on any other Cogent stock, called junior stock, until all dividends on the Series C preferred stock have been paid. If dividends are paid on any junior stock, Cogent shall pay an additional dividend on all outstanding shares of Series C preferred stock in an amount equal per share (on an as-if-converted to common stock basis) to the amount paid or set aside for each share of junior stock.

Conversion and Antidilution Rights

Shares of preferred stock may be converted to common stock at any time. In order to determine the number of shares of common stock received in the conversion, the number of shares of preferred stock held by the converting holder is multiplied by the conversion rate applicable to those shares as calculated pursuant to the certificate of incorporation. All shares of preferred stock will automatically be converted into common stock upon the election of 66.66% of the outstanding shares of preferred stock or immediately upon the closing of a firmly underwritten public offering in which the aggregate pre-money valuation of Cogent is at least $500,000,000 and in which the gross cash proceeds are at least $50,000,000.

If Cogent engages in a stock split or reverse stock split, the applicable conversion prices will be proportionately decreased or increased, as the case may be. If Cogent declares a common stock dividend or distribution, the conversion prices shall be adjusted by multiplying them by the quotient equal to the total number of shares of common stock issued and outstanding immediately prior to the issuance divided by the total number of shares of common stock issued and outstanding immediately prior to the issuance plus the number of shares of common stock issuable in payment of the dividend or distribution. If Cogent declares a dividend payable in securities of the corporation other than common stock, the common stock is changed to a different type of stock, or if there is a capital reorganization, holders of preferred stock shall be entitled, upon conversion of their preferred stock, to receive an amount of securities or property equivalent to what they would have received if they had converted their preferred stock to common stock on the date of the dividend, reclassification, recapitalization, or capital reorganization.

If Cogent issues or sells additional shares of common stock for a price which is less than the then-effective Series A applicable conversion price in the case of Series A preferred stock, the Series B applicable conversion price in the case of Series B preferred stock, or the Series C applicable conversion price in the case of Series C preferred stock, then the conversion prices shall be reduced to prices calculated as prescribed by the certificate of incorporation.

Preemptive, Co-Sale and Voting Rights

Cogent, David Schaeffer and the holders of Cogent's preferred stock entered into an Amended and Restated Stockholders Agreement that governs the sale and transfer of the company's capital stock and which sets forth agreements relating to the nomination and election of Cogent's directors. The Stockholders Agreement will terminate upon (1) the completion of an offering of Cogent common stock in which (a) the pre-money valuation of the company is at least $500,000,000 and (b) the gross proceeds are at least $50,000,000, or (2) the sale of the company, whether by merger, sale, or transfer of more the ninety percent of its capital stock, or sale of substantially all of its assets.

Pursuant to the Stockholders Agreement, Cogent has agreed that, with certain exceptions, it shall not issue, sell, or exchange any common stock, preferred stock, debt securities with equity features, or options or warrants unless it has first offered to sell such securities to Cogent's preferred stockholders who hold, individually or together with their affiliates at least 2,500,000 shares of the preferred stock. Mr. Schaeffer shall also be entitled to this participation right so long as he holds at least fifty percent of the common stock held by him on the date of the Stockholders Agreement.

Mr. Schaeffer may not, while employed by Cogent, sell, assign, or otherwise transfer any shares of common stock held by him until February 7, 2003. The foregoing restriction is subject to certain exceptions, including transfers by gift or bequest. If Mr. Schaeffer is no longer an employee of Cogent, the foregoing transfer restrictions shall be lifted as to a portion of his common stock. Mr. Schaeffer's transfer restrictions terminate upon the completion of (1) an offering described above, (2) the sale of the company, whether by merger, sale, or transfer of more than ninety percent of its capital stock, or sale of substantially all of its assets, or (3) conversion into common stock of all the then outstanding shares of preferred stock.

If Mr. Schaeffer wishes to sell, assign, transfer, or otherwise dispose of any or all of his common stock to a third party who makes a purchase offer to Mr. Schaeffer, he must first offer to sell the shares to Cogent's preferred stockholders on terms at least as favorable as those of the proposed sale to the third party. If Mr. Schaeffer's sale or disposition of common stock, together with prior sales, transfers, or dispositions by Mr. Schaeffer, result in the transfer of more than twenty-five percent of the total number of shares of Mr. Schaeffer's common stock, each Cogent preferred stockholder will have the right to require, as a condition of the sale, that the third party purchase at the same price per share the same percentage of shares of common stock beneficially owned by them as is being purchased from the Mr. Schaeffer.

Finally, the parties to the Stockholders Agreement have agreed to vote to elect as directors two people designated by the holders of a majority of the shares of the common stock, two people designated by the holders of a majority in interest of the then outstanding Series A preferred stock, one person designated by the holders of a majority in interest of the then outstanding Series B preferred stock, one person designated by the holders of a majority in interest of the then outstanding Series C preferred stock, and one person who shall be a person highly knowledgeable about the industry in which Cogent operates and who is unaffiliated with the management of the company. The parties to the Stockholders Agreement agree that the initial designees for election to the board of directors are David Schaeffer and Helen Lee, designees of the holders of common stock; Erel Margalit and James Wei, designees of the holders of Series A preferred stock; Edward Glassmeyer, and designee of the holders of Series B preferred stock.

Registration Rights

According to the terms of the Amended and Restated Registration Rights Agreement, the holders of Restricted Stock have rights to require registration of such stock. Restricted Stock means the common stock acquired by the conversion of preferred stock and the common stock which would be issuable to a holder of preferred stock upon the conversion of all the shares of preferred stock then held by such holder. At any time after the third anniversary of the date of the Amended and Restated Registration Rights Agreement, the holders of more than one-third of the total number of shares of restricted stock, or a lesser percent if the anticipated offering price less underwriting discounts and

commissions would be at least $5,000,000, may request that Cogent register all or any portion of their shares of restricted stock under the Securities Act.

When Cogent receives a registration request, it will notify all holders of restricted stock of the registration request and allow them thirty days to request that their stock be included in the registration. Cogent shall then use its best efforts to register the shares for public sale under the Securities Act. Cogent may include in the registration shares of common stock to be sold for its own account so long as that inclusion does not adversely affect the marketing of the restricted stock. In addition, if the managing underwriter believes that including all of the restricted stock requested to be registered would adversely affect the marketing of such shares, Cogent may reduce the number of shares to be registered, giving holders of Series C preferred stock preference as to registration followed by holders of Series A and B preferred stock together. If Cogent proposes to register any of its securities under the Securities Act for sale to the public, it will give written notice to all holders of restricted stock and shall, upon receiving the written request of any such holder, use its best efforts to include that holder's restricted stock in the registration. If the managing underwriter believes that including all of the restricted stock requested to be registered would adversely affect the marketing of such shares, Cogent may reduce the number of shares to be registered, giving holders of Series C preferred stock preference as to registration followed by holders of Series A and B preferred stock together.

Cisco Warrant

In connection with our credit facility, Cisco Systems Capital Corporation currently is entitled to purchase up to 5% of the shares of Cogent common stock. In addition, we have granted to Cisco Systems Capital registration rights with respect to the common stock it obtains through the exercise of the warrant.

COMPARISON OF STOCKHOLDER RIGHTS

The rights of Allied Riser and Cogent stockholders are currently governed by Delaware General Corporation Law, and the respective certificates of incorporation and bylaws of Allied Riser and Cogent. Upon completion of the merger, the rights of Allied Riser stockholders who become stockholders of Cogent in the merger will be governed by the Delaware General Corporation Law, Cogent's certificate of incorporation, and Cogent's bylaws.

The following description summarizes the material differences that may affect the rights of stockholders of Allied Riser and Cogent but does not purport to be a complete statement of all those differences, or a complete description of the specific provisions referred to in this summary. The identification of specific differences is not intended to indicate that other equally or more significant differences do not exist. Stockholders should read carefully the relevant provisions of the Delaware General Corporation Law, Cogent's certificate of incorporation and bylaws, and Allied Riser's amended and restated certificate of incorporation and amended and restated bylaws.

Authorized Capital Stock

Allied Riser	Cogent
1,000,000,000 shares of Allied Riser common stock	211,000,000 shares of Cogent common stock
100,000 shares of Allied Riser preferred stock	26,000,000 shares of Cogent Series A Preferred Stock
	20,000,000 shares of Cogent Series B Preferred Stock
	52,137,643 shares of Cogent Series C Preferred Stock

Size of Board of Directors

Allied Riser	Cogent
Allied Riser's bylaws provide for a board of directors consisting of not fewer than three nor more than fifteen persons. The number of directors of Allied Riser currently is fixed at four.	Cogent's bylaws provide for a board of directors consisting of six directors. The size of the board of directors may be increased or decreased in conformity with Cogent's certificate of incorporation or any stockholders agreement, the execution of which is approved by the board of directors, (an "approved stockholders agreement"). Upon consummation of the merger, Cogent will increase the size of the board of directors to seven.

Classes of Directors

Allied Riser	Cogent
Allied Riser's certificate of incorporation provides for its board of directors to be divided into three classes, of equal size as practicable,	Cogent's bylaws provide for its board of directors to be divided into three classes, with each class consisting, as nearly as may be possible,

Allied Riser	Cogent
with three-year terms.	of one-third of the total number of directors. Except for the initial term of service, each class shall serve a three year term. The initial term of Class I directors shall terminate on the earlier of the first anniversary of the effective date of the merger and the date of the next meeting of Cogent's stockholders. The initial term of Class II directors shall terminate on the earlier of the second anniversary of the effective date of the merger and the date of the next meeting of Cogent's stockholders. The initial term of Class III directors shall terminate on the earlier of the third anniversary of the effective date of the merger and the date of the next meeting of Cogent's stockholders. The preferred stockholders have the right to designate four of these directors.

Filling Vacancies on the Board

Allied Riser	Cogent
Allied Riser's certificate of incorporation and bylaws provide that vacancies due to increase in the number of directors may be filled by a majority of the directors then in office, provided that there is a quorum, and that vacancies for any other reason may be filled by a majority of the directors then in office, even though less than a quorum.	Cogent's bylaws provide that any vacancies on Cogent's board of directors may be filled by majority vote of the remaining directors, even though less than a quorum, or by a sole director, in each case only after any stockholders entitled to designate nominees to the board of directors under an approved stockholders agreement have been given adequate opportunity to do so.

Removal of Directors

Allied Riser	Cogent
Allied Riser's certificate of incorporation and bylaws provide that directors may be removed only for cause and only by the affirmative vote of a majority of the outstanding shares of voting stock.	Cogent's bylaws provide that unless otherwise restricted by Cogent's certificate of incorporation, an approved stockholders agreement, or bylaw, any director, or the entire board of directors, may be removed from office, either with or without cause, at any meeting of Cogent's stockholders by a majority vote of those stockholders represented and entitled to vote at such meeting. In addition, Cogent's bylaws provide that the term of any director who is also an officer of Cogent shall automatically end if such director ceases to be an officer.

Nomination of Directors for Election

Allied Riser	Cogent
Under Allied Riser's bylaws, nominations for the Allied Riser board of directors may be made by the Allied Riser board of directors or by any stockholder of record on the date of the giving of the notice described in the section of the bylaws entitled Nomination of Directors, who is entitled to vote at the meeting where election of directors will be held. Stockholder nominations must comply with the notice procedures described in Allied Riser's bylaws. These procedures require the stockholder's written notice to be received by Allied Riser: for an annual meeting, not less than 90 days prior to the anniversary date of the immediately preceding annual meeting of stockholders;	Neither Cogent's certificate of incorporation nor its bylaws contain provisions with respect to procedures for the nomination of individuals for election to the board of directors.

Allied Riser	Cogent
if the date of the annual meeting is more than 30 days before or after that anniversary date, then notice must be received not later than the close of business on the fifteenth day following the day on which notice of the date of the annual meeting was mailed or public disclosure of the date of the annual meeting was made, whichever is first; and for a special meeting called for the purpose of electing directors, not later than the close of business on the fifteenth day following the day on which notice of the date of the special meeting was mailed or public disclosure of the date of the special meeting was made, whichever is first. The notice must include information on the nominee required by the proxy rules of the SEC.	

Transactions with Interested Stockholders

Delaware law provides that, subject to certain exceptions, a corporation may not engage in any business combination with any "interested stockholder" (generally defined to mean any beneficial owner of more that 15 percent of the corporation's voting stock) for a three-year period following the date that stockholder becomes an interested stockholder unless the corporation's certificate of incorporation expressly provides, or its bylaws or certificate of incorporation are amended by the stockholders to provide, that the corporation is not governed by this provision of Delaware law, which is set forth at section 203 of the Delaware General Corporation Law.

Allied Riser	Cogent
Allied Riser is governed by section 203 of the Delaware General Corporation Law.	Cogent has not elected not to be governed by section 203 of the Delaware General Corporation Law. Neither Cogent's certificate of incorporation nor its bylaws restrict transactions with interested stockholders.

Stockholder Action Without a Meeting

Allied Riser	Cogent
Allied Riser's certificate of incorporation prohibits stockholder action by written consent and mandates that any action required or permitted to be taken by Allied Riser stockholders must be effected at a duly called annual or special meeting.	Cogent's certificate of incorporation and bylaws allow stockholder action by written consent, without prior notice and without a vote, if such consent is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a stockholder meeting at which all shares entitled to vote thereon were present and voted.

Calling Special Meetings of Stockholders

Allied Riser	Cogent
Allied Riser's certificate of incorporation provides that a special meeting of stockholders may be called only by the Chairman of the Board of Directors, the President, or the board of directors. Allied Riser stockholders do not have the ability to call a special meeting of stockholders.	Cogent's bylaws provide that a special meeting of stockholders may be called by Cogent's President, and must be called by either the President or the Secretary of Cogent at the written request of (1) a majority of the board of directors or (2) stockholders owning at least 10% of the issued and outstanding capital stock of Cogent entitled to vote thereon.

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Submission of Stockholder Proposals

Allied Riser	Cogent
Allied Riser's bylaws specify advance notice requirements that conform to the requirements of Delaware law. Notice of a proposal to be considered at an annual meeting must be received by Allied Riser not less than 90 days prior to the anniversary of the previous year's annual meeting. If the date of the annual meeting is not within 30 days before or after such anniversary date, then such notice must be received by Allied Riser not later than 15 days after the day on which notice of the date for such meeting was mailed or public announcement of such date, whichever is earlier. The notice must include a description of the stockholder proposal, the reasons for conducting the business desired to be brought before the meeting and other information.	Neither Cogent's certificate of incorporation nor its bylaws contain provisions addressing submission of stockholder proposals.

Notice of Stockholder Meetings

Allied Riser	Cogent
Allied Riser's bylaws provide for written notice to stockholders of record not less than 10 nor more than 60 days prior to an annual or special meeting.	Cogent's bylaws provide for written notice to those stockholders entitled to vote not less than 10 nor more than 60 days prior to an annual or special meeting.

Stockholder Vote Required for Mergers

Under Delaware law, a merger, consolidation, or sale of all or substantially all of a Delaware corporation's assets must be approved by the board of directors of the corporation and by a majority of the outstanding stock of the corporation entitled to vote thereon. However, no vote of stockholders of a constituent corporation surviving a merger is required, unless the corporation provides otherwise in its certificate of incorporation of the corporation, if: (1) the merger agreement does not amend the certificate of incorporation of the surviving corporation; (2) each share of stock of the surviving corporation outstanding before the merger is an identical outstanding or treasury share after the merger; and (3) either no shares of common stock of the surviving corporation are to be issued or delivered pursuant to the merger, or, if common stock will be issued or delivered, it will not increase

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the number of shares of common stock outstanding immediately prior to the merger by more than 20%.

Allied Riser	Cogent
Allied Riser's certificate of incorporation does not deviate from Delaware law.	Cogent's certificate of incorporation provides that so long as 29,441,293 shares of preferred stock are outstanding, the affirmative vote or consent of the holders of two-thirds of the issued and outstanding shares of preferred stock, voting together as a single class, is required for any merger or consolidation. In the event that there are fewer than 29,441,293 shares of preferred stock outstanding, Cogent's certificate of incorporation does not deviate from Delaware law.

Dividends

Under Delaware law, a Delaware corporation may pay dividends out of surplus or, if there is no surplus, out of net profits for the fiscal year in which declared and for the preceding fiscal year. Delaware law also provides that dividends may not be paid out of net profits if, after the payment of the dividend, capital is less than the capital represented by the outstanding stock of all classes having a preference upon the distribution of assets.

Allied Riser	Cogent
Allied Riser's bylaws provide that the board of directors has full discretion to declare dividends.	Cogent's certificate of incorporation provides that the board of directors has full discretion to declare dividends on the Series C Preferred Stock at the annual rate of 8%. Except in certain specified events, no dividends on the other capital stock of Cogent can be paid or declared until all dividends on the Series C Preferred Stock have been paid or declared and set apart, in which case Cogent's certificate of incorporation further provides that so long as 29,441,293 shares of preferred stock are outstanding, the affirmative vote or consent of the holders of two-thirds of the issued and outstanding shares of preferred stock, voting together as a single class, is required for the declaration of dividends. In the event that less than 29,441,293 shares of preferred stock are outstanding, Cogent's certificate of incorporation provides that, subject to any preferential dividend rights of any outstanding common stock, the board of directors has full discretion to declare dividends. See "Description of Cogent Capital Stock" for a discussion of dividend preferences among the different classes of Cogent's capital stock.

Stockholder Preemptive Rights

Delaware law provides that no stockholder shall have any preemptive rights to purchase additional securities of the corporation unless the certificate of incorporation expressly grants these rights.

Allied Riser	Cogent
Allied Riser's certificate of incorporation does not provide for preemptive rights for Allied Riser common stockholders.	Cogent's certificate of incorporation does not provide for preemptive rights for Cogent stockholders. Pursuant to the Stockholders Agreement, however, Cogent has agreed that, with certain exceptions, it shall not issue, sell, or exchange any common stock, preferred stock, debt securities with equity features, or options or warrants unless it has first offered to sell such securities to certain holders of Cogent preferred stock. This right shall exist for so long as David Schaeffer holds at least fifty percent of the common stock held by him on the date of the Stockholders Agreement.

Stockholder Class Voting Rights

Delaware law requires voting by separate classes of shares only with respect to amendments to a Delaware corporation's certificate of incorporation that adversely affect the holders of those classes or that increase or decrease the aggregate number of authorized shares or the par value of the shares of any of those classes.

Allied Riser	Cogent
Allied Riser has only one class of shares outstanding.	Except with respect to certain events set forth in the certificate of incorporation or by statute, holders of Cogent's capital stock vote

Allied Riser	Cogent
	together as a single class, with each share of common stock entitled to one vote, and each share of preferred stock entitled to one vote per share of common stock to be received upon conversion of such preferred stock. See "Description of Cogent Capital Stock" for a discussion of instances where holders of Cogent capital stock vote by separate classes.

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UNAUDITED CONDENSED COMBINED PRO FORMA FINANCIAL STATEMENTS

The following unaudited condensed combined pro forma financial statements ("the pro forma financial statements") and explanatory notes have been prepared to give effect to the merger and Cogent's September 2001 acquisition of certain assets of NetRail, Inc., using the purchase method of accounting for business combinations. The unaudited condensed combined pro forma financial statements also reflect the issuance by Cogent of $62.0 million of its Series C preferred stock and the impact of Cogent's October 2001 credit facility. The merger and acquisition of certain NetRail, Inc. assets are being accounted for as purchase business combinations as defined by SFAS No. 141. Cogent is the acquiring enterprise for purposes of accounting for the merger and NetRail asset acquisition. The pro forma financial statements also reflect the modification of certain of Allied Riser's capital leases and maintenance obligations.

In accordance with Article 11 of Regulation S-X under the Securities Act, an unaudited condensed combined pro forma balance sheet ("the pro forma balance sheet") as of September 30, 2001, and unaudited condensed combined pro forma statements of operations ("the pro forma statements of operations") for the nine months ended September 30, 2001, and the year ended December 31, 2000, have been prepared to reflect, for accounting purposes, the merger of Allied Riser and Cogent, the issuance by Cogent of $62.0 million of its Series C preferred stock, the impact of Cogent's October 2001 credit facility, the modification of Allied Riser's capital leases and maintenance obligations, and, for purposes of the September 30, 2001 and December 31, 2000 statements of operations, the acquisition by Cogent of certain assets of NetRail, Inc. For both the pro forma balance sheet and all periods included in the pro forma statements of operations, the average number of common and common equivalent shares gives effect to the exchange ratio of one share of Allied Riser for 0.0321679 shares of Cogent.

The following pro forma financial statements have been prepared based upon the historical financial statements of Cogent, Allied Riser and NetRail, respectively. The pro forma financial statements should be read in conjunction with (a) the historical consolidated financial statements of Cogent as of December 31, 2000 and 1999, for the year ended December 31, 2000, and for the period from inception (August 9, 1999) to December 31, 1999, and the unaudited condensed consolidated financial statements as of September 30, 2001, and for the nine month periods ended September 30, 2001 and 2000, included in this registration statement; and (b) the historical consolidated financial statements and related notes thereto of Allied Riser and NetRail included in this proxy statement/prospectus. See "Index to Financial Statements."

The pro forma balance sheet assumes that the merger was completed on September 30, 2001. The pro forma balance sheet includes historical unaudited consolidated balance sheet data of Cogent and Allied Riser as of September 30, 2001, with Cogent's balance sheet adjusted to reflect the issuance of $62.0 million of Series C preferred stock ("the Series C financing") and the impact of Cogent's October 2001 credit facility and Allied Risers' settlement of its capital lease and maintenance obligations to a vendor. The Series C financing closed in October 2001. Cogent's credit facility with Cisco Capital was obtained on October 9, 2001.

The pro forma statements of operations assume the merger and Cogent's acquisition of certain assets of NetRail, Inc. occurred on January 1, 2000. The pro forma statements of operations for the year ended December 31, 2000, include the historical consolidated statement of income data of Cogent, NetRail, and Allied Riser for the year ended December 31, 2000. The pro forma statements of operations for the nine-month period ended September 30, 2001, include the historical consolidated unaudited statement of operations data of Cogent, NetRail, and Allied Riser for the nine-month period ended September 30, 2001. These pro forma statements assume that the merger, Cogent's acquisition of certain assets of NetRail, the Series C financing, and the closing of both Cogent's credit facility with Cisco Capital and the settlement and termination of Allied Riser's capital lease and maintenance committments to a vendor occurred on January 1, 2000.

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The pro forma financial statements are provided for illustrative purposes only, and are not necessarily indicative of the operating results or financial position that would have occurred if these transactions had been consummated at the beginning of the periods or on the dates indicated, nor are they necessarily indicative of any future operating results or financial position. The pro forma financial statements do not include any adjustments related to any restructuring charges, profit improvements, potential costs savings, or one-time charges which may result from these transactions or the final result of valuations of inventories, property, plant and equipment, intangible assets, debt, and other obligations. Cogent and Allied Riser are currently developing plans to integrate the operations of the companies, which will involve costs including, among others, severance and settlement of operating and capital commitments, which are material. The merger has not been consummated as of the date of the preparation of these pro forma financial statements and there can be no assurances that the merger will be consummated in the future.

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COGENT COMMUNICATIONS GROUP, INC.
UNAUDITED CONDENSED COMBINED PRO FORMA BALANCE SHEET
AS OF SEPTEMBER 30, 2001
(DOLLARS IN THOUSANDS)

	Historical Cogent	Cogent Pro Forma Financing Adjustments	Adjusted Cogent	Historical Allied Riser	Allied Riser Pro Forma Acquisition Adjustments	Cogent & Allied Riser Pro Forma Combined
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 10,528	$ 61,802 (a)	$ 72,330	$ 28,482	$ (1,450)(f)	$ 99,362
Short-term investments				86,241	60 (d)	86,301
Accounts receivable, net	823		823	1,093		1,916
Prepaid expenses and other current assets	2,320		2,320	2,301		4,621
Total current assets	13,671		75,473	118,117		192,200
PROPERTY AND EQUIPMENT, net	214,105		214,105	33,191	(33,191)(g)	214,105
REAL ESTATE ACCESS RIGHTS, net				8,557	(8,557)(h)	
GOODWILL AND OTHER INTANGIBLE ASSETS, net	11,740		11,740			11,740
OTHER ASSETS, net	8,252	6,901 (b)	15,153	8,623	(3,940)(i)	19,836
Total assets	$ 247,768		$ 316,472	$ 168,488		$ 437,882
LIABILITIES AND STOCKHOLDERS' EQUITY						
CURRENT LIABILITIES:						
Accounts payable	$ 5,524	$	$ 5,524	$ 7,047	$ (5,775)(k)	$ 6,796
Accrued liabilities	5,806		5,806	22,712	22,353 (j)	50,871
Current maturities of capital lease obligations	1,734		1,734	35,883	(23,517)(k)	14,100
Current maturities of credit facility						
Current maturities of debt				604		604
Total current liabilities	13,064		13,064	66,246		72,371
CAPITAL LEASE OBLIGATIONS, net of current maturities	17,756		17,756	23,189	(23,091)(k)	17,854
LONG-TERM LIABILITIES:						
Credit facility	107,625	1,980 (c)	109,605			109,605
Credit facility working capital	28,990		28,990			28,990
Deferred equipment discount	20,915		20,915			20,915
Long-term debt, net of current maturities				749		749
Convertible notes				123,600	(84,666)(l)	38,934
Total liabilities	188,350		190,330	213,784		289,418

	Historical Cogent	Cogent Pro Forma Financing Adjustments	Adjusted Cogent	Historical Allied Riser	Allied Riser Pro Forma Acquisition Adjustments	Cogent & Allied Riser Pro Forma Combined
STOCKHOLDERS' EQUITY:						
Convertible preferred stock, Series A	25,892		25,892			25,892
Convertible preferred stock, Series B	90,009		90,009			90,009
Convertible preferred stock, Series C		61,802 (a)	61,802			61,802
Common stock	14		14	6	(6)(m)	14
Additional paid-in capital	194		194	509,294	(497,978)(n)	11,510
Warrants	583	4,921(e)	5,504	71,127	(71,127)(o)	5,504
Deferred compensation				(3,340)	3,340 (o)	
Accumulated other comprehensive loss				(859)	859 (o)	
Accumulated deficit	(57,274)		(57,274)	(621,524)	632,530 (p)	(46,268)
Total stockholders' equity	$ 59,418		126,142	(45,296)		148,464
Total liabilities and stockholders' equity	$ 247,768		$ 316,472	$ 168,488		$ 437,882

See Notes to Unaudited Condensed Combined Pro Forma Balance Sheet

NOTES TO THE UNAUDITED CONDENSED COMBINED PRO FORMA BALANCE SHEET AS OF SEPTEMBER 30, 2001

(a) Represents the issuance of 49.7 million shares of Series C preferred stock for net proceeds of $61.8 million.

(b) Represents (1) the $4.9 million valuation of warrants for 6.2 million shares of Cogent's common stock issued to Cisco Capital in connection with Cogent's October 2001 credit facility and (2) the debt issuance cost of $2.0 million accrued related to Cogent's October 2001 credit facility.

(c) Represents the commitment fee of $2.0 million accrued in connection with Cogent's October 2001 credit facility.

(d) Represents the adjustment necessary to record Allied Riser's short term investments at their fair market value.

(e) Represents the valuation of warrants for 6.2 million shares of Cogent's common stock issued to Cisco Capital in connection with Cogent's October 2001 credit facility.

(f) Represents Cogent's estimated transaction costs associated with the merger.

(g) Represents (1) the decrease of $12.1 million in the historical cost basis of Allied Riser's property and equipment not expected to be used by Cogent to its estimated fair value of $21.0 million and (2) the allocation of $21.0 million of negative goodwill.

(h) Represents (1) the increase of $2.4 million in the historical cost basis of Allied Riser's real estate access rights to their estimated fair value of $11.0 million less (2) the allocation of $11.0 million of negative goodwill.

(i) Represents the allocation of negative goodwill to non-monetary long term assets.

(j) Represents (1) the estimated liability for Allied Riser's operating lease commitments not expected to be used by Cogent of $6.0 million and (2) the estimated liability for Allied Riser's real estate access agreements not expected to be used by Cogent of $8.9 million and

(3) the estimated liability for Allied Riser's commitments under leased circuits with carriers not expected to be used by Cogent of $4.8 million and (4) additional severance and health care obligations of $2.6 million that will be payable to Allied Riser's employees as a result of the merger. Cogent has determined that $6.0 million, $8.9 million, $4.8 million and $2.6 million of Allied Riser's commitments for operating leases, real estate access agreements, circuit commitments, and severance and health care obligations, respectively, qualify as "costs of a plan to exit an activity of an acquired company" under EITF Issue 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination."

(k)

Represents (1) the impact of the settlement of certain of Allied Riser's capital lease and maintenance obligations totaling $62.9 million for $12.5 million and (2) the adjustment required to record Allied Riser's remaining capital leases at their estimated fair value using Cogent's effective borrowing rate. On October 9, 2001, Allied Riser entered into a settlement and mutual release agreement for certain of its capital lease agreements with a vendor. The book value of these obligations was $62.9 million and they were settled for $12.5 million. Of the $50.4 million adjustment, $22.3 million was recorded against current maturities of capital lease obligations, $22.3 million was recorded against capital lease obligations, and $5.8 million was recorded against accounts payable.

(l)

Represents the adjustment required to record Allied Risers' convertible notes at their fair value using their trading price of the convertible notes on October 19, 2001.

(m)

Represents (1) the elimination of Allied Riser's historical equity balance and (2) the par value for the 2.2 million shares of Cogent common stock to be issued in the merger.

(n)

Represents (1) the elimination of Allied Riser's historical equity balance and (2) the additional paid in capital resulting from the issuance of 2.2 million shares of Cogent common stock to be issued in the merger. The fair value of the common stock included in the pro forma determination of the purchase price was determined by using the average closing price of Allied's common stock during the period from October 8, 2001 to October 19, 2001, in accordance with SFAS 141 "Business Combinations."

(o)

Represents the elimination of Allied Riser's historical equity balance.

(p)

Represents the elimination of Allied Riser's historical accumulated deficit balance of $621.5 million and (2) the extraordinary gain of $11.0 million resulting from the excess of the net assets acquired over the purchase price pursuant to SFAS No. 141.

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Merger Consideration

The determination of the purchase price for Allied Riser Corporation by Cogent in accordance with SFAS 141 is not necessarily indicative of and could differ significantly from the value of the merger consideration to be issued to the Allied Riser stockholders. The purchase price allocation is preliminary and may change upon final determination of the fair value of the assets and liabilities acquired.

Allied Riser		**Amounts in Thousands**
Fair value of equity securities issued as merger consideration:		
Common stock	$	10,170
Stock options, warrants and deferred stock units		1,146
Transaction expenses		1,450
Total purchase price	$	12,766
Estimated fair value of net assets acquired	$	59,803
Estimated fair value in excess of purchase price negative goodwill	$	(47,037)
Negative goodwill allocated to:		
Property and equipment	$	21,091
Real estate access rights		11,000
Other assets		3,940
Extraordinary gain		11,006

Allied Riser	Amounts in Thousands
	$ 47,037

COGENT COMMUNICATIONS GROUP, INC.
UNAUDITED CONDENSED COMBINED PRO FORMA STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2000
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Historical Cogent	Historical NetRail	NetRail Pro Forma Acquisition Adjustments	Cogent & NetRail Pro Forma Combined	Cogent Pro Forma Financing Adjustments	Adjusted Cogent	Historical Allied	Allied Pro Forma Acquisition Adjustments	Cogent & Allied Pro Forma Combined
REVENUE:									
Network services	$	$ 9,524	$ (8,294)(a)	$ 1,230		$ 1,230	$ 10,969	$ (964)(h)	$ 11,235
Value added services							3,363		3,363
Total revenue		9,524		1,230		1,230	14,332		14,598
OPERATING EXPENSES:									
Network operations	3,040	30,960	(29,737)(b)	4,263		4,263	43,389	(964)(h)	46,688
Cost of value added services							2,356		2,356
Selling, general and administrative expenses	10,844	18,711	(18,711)(c)	10,844		10,844	105,298		116,142
Depreciation and amortization	338	1,023	2,915 (d)	4,276	283 (f)	4,558	36,155	(36,155)(i)	4,558
Amortization of deferred compensation							9,418		9,418
Asset write-down		11,946	(11,946)(c)						
Total operating expenses	14,222	62,640		19,383		19,665	196,616		179,162
OPERATING LOSS	(14,222)	(53,116)		(18,153)		(18,435)	(182,284)		(164,564)
OTHER INCOME (EXPENSE):									
Interest expense	(1,105)	(3,082)	3,082 (c)	(1,105)	(703)(g)	(1,808)	(9,348)	(9,630)(j)	(20,786)
Interest and other income	3,566	2,187	(2,900)(e)	2,853		2,853	18,224		21,077
Total other income (expense)	2,461	(895)		1,748		1,045	8,876		290
LOSS BEFORE INCOME TAXES	(11,761)	(54,011)		(16,405)		(17,391)	(173,408)		(164,274)
PROVISION FOR INCOME TAXES									
NET LOSS	$ (11,761)	$ (54,011)		$ (16,405)		$ (17,391)	$ (173,408)		$ (164,274)

	Historical Cogent	Historical NetRail	NetRail Pro Forma Acquisition Adjustments	Cogent & NetRail Pro Forma Combined	Cogent Pro Forma Financing Adjustments	Adjusted Cogent	Historical Allied	Allied Pro Forma Acquisition Adjustments	Cogent & Allied Pro Forma Combined
BASIC & DILUTED NET LOSS PER COMMON SHARE (l)	$ (0.85)			$ (1.19)			$ (3.18)		$ (45.96)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	13,824,000			13,824,000			54,472,000	2,191,531 (k)	3,573,931 (m)

See Notes to Unaudited Condensed Combined Pro Forma Statement of Operations for the year ended December 31, 2000.

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NOTES TO THE UNAUDITED CONDENSED COMBINED PRO FORMA STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2000

(a) Represents the elimination of revenue generated by customers whose contracts were not acquired by Cogent.

(b) Represents the elimination of expenses generated by assets not acquired by Cogent. Retained expenses include network costs under contracts assumed by Cogent. Under the asset purchase agreement, Cogent assumed contracts for network services which totalled approximately $1.2 million in network costs for the year ended December 31, 2000. This $29.7 million adjustment eliminates expenses related to contracts which were not acquired and are in excess of the $1.2 million.

(c) Represents the elimination of expenses generated by assets not acquired by Cogent. Under the asset purchase agreement, Cogent did not acquire or assume obligations recorded as selling general and administrative expenses by NetRail. This adjustment eliminates $18.7 million of selling, general and administrative expenses related to obligations and commitments which were not acquired.

(d) Represents (1) the elimination of the historical depreciation and amortization of $1.0 million plus (2) the increase in amortization and depreciation of $2.9 million from the amortization of assets acquired.

	Amounts in Thousands
NetRail	
Purchase consideration	
Cash paid	$ 11,886
Transaction expenses	204
Total purchase price	$ 12,090
Estimated fair value of assets acquired:	
Tangible assets	350
Peering agreements	$ 11,036
Customer contracts	704

	Amounts in Thousands
	$ 12,090

The purchase price allocation is preliminary and may change upon final determination of the fair value of assets and liabilities acquired.

The assets acquired are being depreciated using the straight-line method over the following useful lives.

Peering agreements	3 years
Customer contracts	3 years
Tangible assets	3-7 years

(e)

Represents (1) the elimination of historical interest income of $2.2 million plus (2) the estimated reduction to interest income from the reduction in cash of $12.0 million.

(f)

Represents amortization of the commitment fee of $2.0 million paid to Cisco Capital in connection with Cogent's October 2001 credit facility over the remaining seven year term of the credit facility.

(g)

Represents the amortization of debt issuance costs associated with warrants for 6.2 million shares of Cogent's common stock valued at $4.9 million amortized over the remaining seven year term of the credit facility. These warrants were issued to Cisco Capital in connection with Cogent's October 2001 credit facility.

(h)

Represents the elimination of transactions between NetRail and Allied Riser. Allied Riser was a customer of NetRail.

(i)

Represents the reduction to depreciation and amortization expense resulting from the allocation of negative goodwill.

(j)

Represents (1) increased interest expense resulting from the write down of Allied Riser's convertible notes and capital leases to their fair value and the resulting additional amortization of discount less (2) the reduction to interest expense from the settlement of certain capital lease obligations below their recorded value. The adjustment required to record Allied Riser's convertible notes at their fair value results in an amortization of the discount resulting in an additional $14.5 million of interest expense. The settlement of $44.6 million of capital lease obligations results in reduced interest expense of $5.1 million. The adjustment to Allied Riser's remaining capital lease obligations at appropriate current interest rates results in an increase to interest expense of $0.2 million.

(k)

Represents the effect of issuing 2.2 million shares of Cogent common stock for all of the outstanding shares of Allied Riser common stock in the merger. Based upon a conversion ratio of 0.0321679 shares of Cogent common stock issued for each share of Allied Riser common stock, after the impact of a ten-for-one reverse split of Cogent common stock. The conversion ratio was determined based upon Cogent's common stock on a fully diluted basis, including the issuance of 5.0 million shares of Series C preferred stock.

(l)

Historical basic and diluted loss per common share and pro forma basic and diluted net loss per common share are the same, because Cogent, Allied Riser and the pro forma combined company would have a loss and the effect of common stock equivalents would be anti-dilutive. The historical Cogent amounts do not reflect the impact of a ten-for-one reverse split of Cogent common stock.

(m)

Adjusted to reflect the impact of a proposed ten-for-one reverse split of Cogent common stock.

COGENT COMMUNICATIONS GROUP, INC.
UNAUDITED CONDENSED COMBINED PROFORMA STATEMENT OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Historical Cogent	Historical NetRail	NetRail Pro Forma Acquisition Adjustments	Cogent & NetRail Pro Forma	Cogent Pro Forma Financing Adjustments	Adjusted Cogent	Historical Allied	Allied Pro Forma Adjustments	Pro Forma Combined
REVENUE:									
Network services	$ 747	$ 8,594	$ (6,936)(a)	$ 2,405		$ 2,405	$ 18,547	$ (1,222)(h)	$ 19,730
Value added services							5,680		5,680
Total revenue	747	8,594		2,405		2,405	24,227		25,410
OPERATING EXPENSES:									
Network operations	15,473	19,128	(17,818)(b)	16,783		16,783	57,050	(1,222)(h)	72,611
Cost of value added services							4,013		4,013
Selling, general and administrative expenses	21,756	9,113	(9,113)(c)	21,756		21,756	55,459		77,215
Depreciation and amortization	5,955	1,360	1,593 (d)	8,908	212 (f)	9,120	32,484	(32,484)(i)	9,120
Amortization of deferred compensation									
Asset write-down							262,336		262,336
Total operating expenses	43,184	29,601		47,447		47,659	411,342		425,295
OPERATING LOSS	(42,437)	(21,007)		(45,042)		(45,254)	(387,115)		(399,885)
OTHER INCOME (EXPENSE):									
Interest expense	(4,756)	(1,040)	1,040 (c)	(4,756)	(527)(g)	(5,283)	(11,533)	(3,372)(j)	(20,188)
Interest and other income	1,763	139	(496)(e)	1,406		1,406	6,780		8,186
Total other income (expense)	(2,993)	(901)		(3,350)		(3,877)	(4,753)		(12,002)
LOSS BEFORE INCOME TAXES	(45,430)	(21,908)		(48,392)		(49,131)	(391,868)		(411,887)
PROVISION FOR INCOME TAXES									
NET LOSS	$ (45,430)	$ (21,908)		$ (48,392)		$ (49,131)	$ (391,868)		$ (411,887)
BASIC & DILUTED NET LOSS PER COMMON SHARE (l)	$ (3.23)			$ (3.44)			$ (6.59)		$ (114.53)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	14,047,813			14,047,813			59,493,000	2,191,531 (k)	3,596,312 (m)

See Notes to Unaudited Condensed Combined Pro Forma Statement of Operations for the nine months ended September 30, 2001.

NOTES TO THE UNAUDITED CONDENSED COMBINED PRO FORMA STATEMENT OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001

(a)
Represents the elimination of revenues generated by customers whose contracts were not acquired by Cogent.

(b)
Represents the elimination of expenses generated by assets not acquired by Cogent. Retained expenses include network costs under contracts assumed by Cogent. Under the asset purchase agreement, Cogent assumed contracts for network services which totalled approximately $1.3 million in network costs for the nine months ended September 30, 2001. This $17.8 million adjustment eliminates expenses related to contracts which were not acquired and are in excess of the $1.3 million.

(c)
Represents the elimination of expenses generated by assets not acquired by Cogent. Under the asset purchase agreement, Cogent did not acquire or assume obligations recorded as selling, general and administrative expenses by NetRail. This adjustment eliminates $9.1 million of selling, general and administrative expenses related to obligations and commitments which were not acquired.

(d)
Represents (1) the elimination of the historical depreciation and amortization of $1.4 million plus (2) the increase in amortization and depreciation of $4.0 million from the amortization of assets acquired.

		Amounts in Thousands
NetRail		
Purchase consideration		
Cash paid	$	11,886
Transaction expenses		204
Total purchase price	$	12,090
Estimated fair value of assets acquired:		
Tangible assets		350
Peering agreements	$	11,036
Customer contracts		704
	$	12,090

The purchase price allocation is preliminary and may change upon final determination of the fair value of assets and liabilities acquired.

The assets acquired are being depreciated using the straight-line method over the following useful lives.

Peering agreements	3 years
Customer contracts	3 years
Tangible assets	3-7 years

(e)
Represents (1) the elimination of historical interest increase of $0.1 million plus (2) the estimated reduction to interest income of $0.4 million from the reduction in cash of $12.0 million.

(f)
Represents amortization of the commitment fee of $2.0 million paid to Cisco Capital in connection with Cogent's October 2001 credit facility over the remaining seven year term of the credit facility.

(g) Represents the amortization of warrants for 6.2 million shares of Cogent's common stock valued at $4.9 million amortized over the remaining seven year term of the credit facility. These warrants were issued to Cisco Capital in connection with Cogent's October 2001 credit facility.

(h) Represents the elimination of transactions between NetRail and Allied Riser. Allied Riser was a customer of NetRail.

(i) Represents the reduction to depreciation and amortization expense resulting from the allocation of negative goodwill.

(j) Represents (1) increased interest expense resulting from the write down of Allied Riser's convertible notes and capital leases to their fair value and the resulting additional amortization of discount less (2) the reduction to interest expense from the settlement of certain capital lease obligations below their recorded value.

(k) Represents the effect of issuing 2.2 million shares of Cogent common stock for all of the outstanding shares of Allied Riser common stock in the merger. Based upon a conversion ratio of 0.0321679 shares of Cogent common stock issued for each share of Allied Riser

common stock, after the impact of a ten-for-one reverse split of Cogent common stock. The conversion ratio was determined based upon Cogent's common stock on a fully diluted basis.

(l) Historical basic and diluted loss per common share and pro forma basic and diluted net loss per common share are the same, because Cogent, Allied Riser and the pro forma combined company would have a loss and the effect of common stock equivalents would be anti-dilutive. The historical Cogent amounts do not reflect the impact of a ten-for-one reverse split of Cogent common stock.

(m) Adjusted to reflect the impact of a proposed ten-for-one reverse split of Cogent common stock.

LEGAL MATTERS

Legal matters relating to the validity of the shares of Cogent's common stock offered by this proxy statement/prospectus and federal income tax matters relating to the merger will be passed upon for Cogent by Latham & Watkins, Washington, D.C. Federal income tax matters relating to the merger will be passed upon for Allied Riser by Jones, Day, Reavis & Pogue, Atlanta, Georgia.

EXPERTS

The audited financial statements of Cogent Communications Group, Inc. and Subsidiaries and Allied Riser Communications Corporation and Subsidiaries included in this prospectus and elsewhere in the registration statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

The December 31, 2000 audited financial statements of NetRail, Inc. and Subsidiaries included in this prospectus and elsewhere in the registration statement have been audited by Habif, Arogeti & Wynne, LLP, independent public accountants, as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said report.

The 1999 financial statements of NetRail, Inc. included in this proxy statement/prospectus and in the Registration Statement on Form S-4 have been audited by BDO Seidman, LLP, independent certified public accountants, to the extent and for the period set forth in their report (which contain an explanatory paragraph regarding NetRail, Inc.'s ability to continue as a going concern) appearing elsewhere herein and in the Registration Statement on Form S-4, and is included in reliance upon such report given the authority of said firm as experts in auditing and accounting.

STOCKHOLDER PROPOSALS

Allied Riser plans to hold an annual meeting in 2002 only if the merger is not completed. If an annual meeting of Allied Riser stockholders is held in 2002, proposals of Allied Riser stockholders intended to be presented at the 2002 annual meeting must be received by the Secretary of Allied Riser at 1700 Pacific Avenue, Suite 400, Dallas, Texas 75201 no later than December 31, 2001, in order to be considered for inclusion in Allied Riser's 2002 proxy materials, and stockholder proposals submitted outside the process of Rule 14a-8 under the Securities Exchange Act must be received by Allied Riser as provided in Allied Riser's bylaws no later than March 16, 2002, to be eligible for consideration at the 2002 annual meeting.

WHERE YOU CAN FIND MORE INFORMATION

Cogent has filed a registration statement on Form S-4 to register with the SEC the Cogent common stock to be issued to Allied Riser stockholders in the merger. This proxy statement/prospectus is a part of that registration statement and constitutes a prospectus of Cogent, in addition to being a proxy statement of Allied Riser for the Allied Riser special meeting. The registration statement, including the attached exhibits and schedules, contains additional relevant information about Allied Riser and Cogent common stock. As allowed by SEC rules, this proxy statement/prospectus does not contain all the information you can find in the registration statement or the exhibits to the registration statement. Summaries contained in this proxy statement/prospectus of the contents of any agreement or other document referred to in this proxy statement/prospectus are not necessarily complete and we refer you to the complete copy of that agreement or other document for its precise legal terms and other information that may be important to you.

In addition, Allied Riser files annual, quarterly, and current reports, proxy statements, and other information with the SEC. You may read and copy any such reports, statements, or other information

filed by Allied Riser at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. The SEC filings of Allied Riser are also available to the public from commercial document retrieval services and at the Web site maintained by the SEC at http://www.sec.gov.

Cogent has supplied all information contained in this proxy statement/prospectus relating to Cogent, and Allied Riser has supplied all the information relating to Allied Riser.

We have not authorized anyone to give any information or make any representation about the merger or our companies that is different from, or in addition to, that contained in this proxy statement/prospectus or in any of the materials that we have incorporated by reference into this proxy statement/prospectus. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this proxy statement/prospectus or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this proxy statement/prospectus does not extend to you. The information contained in this proxy statement/prospectus speaks only as of the date of this document unless the information specifically indicates that another date applies.

INDEX TO FINANCIAL STATEMENTS

ALLIED RISER COMMUNICATIONS CORPORATION FINANCIAL STATEMENTS

NETRAIL, INC. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Cogent Communications Group, Inc., and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Cogent Communications Group, Inc. (a Delaware corporation), and Subsidiaries (together the Company) as of December 31, 1999 and 2000, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the period from inception (August 9, 1999) to December 31, 1999, and for the year ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cogent Communications Group, Inc., and Subsidiaries as of December 31, 1999 and 2000, and the results of their operations and their cash flows for the period from inception (August 9, 1999) to December 31, 1999, and for the year ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Vienna, Virginia
March 15, 2001

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 1999 AND 2000

	1999	2000
Assets		
Current assets:		
Cash and cash equivalents	$ 343	$ 65,593,324
Prepaid expenses and other current assets	25,000	3,281,060
Total current assets	25,343	68,874,384
Property and equipment:		
Property and equipment		128,843,820
Accumulated depreciation and amortization		(338,008)
Total property and equipment		128,505,812
Other assets		7,213,457
Total assets	$ 25,343	$ 204,593,653
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$	$ 2,600,528
Accrued liabilities	7,633	2,954,665
Capital lease obligations		10,697,395
Total current liabilities	7,633	16,252,588
Cisco credit facility		67,239,085
Deferred equipment discount		16,853,400
Total liabilities	7,633	100,345,073
Commitments and contingencies:		

	1999	2000
Stockholders' equity:		
Convertible preferred stock, Series A, $0.001 par value; 26,000,000 shares authorized, issued, and outstanding in 2000; none in 1999; liquidation preference of $27,882,357		25,891,957
Convertible preferred stock, Series B, $0.001 par value; 20,000,000 shares authorized; 19,809,783 shares issued and outstanding in 2000; none in 1999; liquidation preference of $93,693,925		90,009,445
Common stock, $0.001 par value; 49,500,000 and 70,000,000 shares authorized; 13,600,000 and 14,006,977 shares issued and outstanding	13,600	14,007
Additional paid-in capital	86,400	176,179
Accumulated deficit	(82,290)	(11,843,008)
Total stockholders' equity	17,710	104,248,580
Total liabilities and stockholders' equity	$ 25,343	$ 204,593,653

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

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE PERIOD FROM INCEPTION (AUGUST 9, 1999) TO
DECEMBER 31, 1999, AND FOR THE YEAR ENDED DECEMBER 31, 2000

	1999	2000
Operating expenses:		
Network operations	$	$ 3,040,100
Selling, general, and administrative	82,290	10,844,425
Depreciation and amortization		338,008
Total operating expenses	82,290	14,222,533
Operating loss	(82,290)	(14,222,533)
Interest income		3,432,532
Interest expense		(1,104,696)
Other income		133,979
Net loss	$ (82,290)	$ (11,760,718)
Basic and diluted net loss per common share	$(0.01)	$(0.85)
Weighted-average common shares (basic and diluted)	13,600,000	13,823,598

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

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE PERIOD FROM INCEPTION (AUGUST 9, 1999) TO
DECEMBER 31, 1999 AND FOR THE YEAR ENDED TO DECEMBER 31, 2000

	Common stock			Convertible preferred stock Series A		Convertible preferred stock Series B			
	Shares	Amount	Additional paid-in capital	Shares	Amount	Shares	Amount	Accumulated deficit	Total stockholders' equity
Balance, August 9, 1999 (date of inception)		$	$		$		$	$	$
Issuance of common stock	13,600,000	13,600	86,400						100,000
Net loss								(82,290)	(82,290)
Balance, December 31, 1999	13,600,000	13,600	86,400					(82,290)	17,710
Issuances of common stock pursuant to exercises of stock options	406,977	407	89,779						90,186
Issuance of Series A convertible preferred stock, net				26,000,000	25,891,957				25,891,957
Issuance of Series B convertible preferred stock, net						19,809,783	90,009,445		90,009,445
Net loss								(11,760,718)	(11,760,718)
Balance, December 31, 2000	14,006,977	$ 14,007	$ 176,179	26,000,000	$ 25,891,957	19,809,783	$ 90,009,445	$ (11,843,008)	$ 104,248,580

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

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COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIOD FROM INCEPTION (AUGUST 9, 1999) TO DECEMBER 31, 1999,
AND FOR THE YEAR ENDED DECEMBER 31, 2000

	1999	2000
Cash flows from operating activities:		
Net loss	$ (82,290)	$ (11,760,718)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization		338,008
Changes in assets and liabilities:		
Prepaid expenses and other current assets		(3,281,060)
Other assets		(7,213,457)
Accounts payable and accrued liabilities	7,633	5,547,560

	1999	2000
Net cash used in operating activities	(74,657)	(16,369,667)
Cash flows from investing activities:		
Purchases of property and equipment		(80,988,863)
Cash flows from financing activities:		
Borrowings under Cisco credit facility		67,239,085
Collection of note from stockholder		25,000
Proceeds from issuance of common stock	75,000	
Proceeds from option exercises		90,186
Repayment of capital lease obligations		(37,157,562)
Deferred equipment discount		16,853,400
Issuances of preferred stock, net of issuance costs		115,901,402
Net cash provided by financing activities	75,000	162,951,511
Net increase in cash and cash equivalents	343	65,592,981
Cash and cash equivalents, beginning of period		343
Cash and cash equivalents, end of period	$ 343	$ 65,593,324
Supplemental disclosures of cash flow information:		
Cash paid for interest	$	$ 1,736,341
Cash paid for income taxes		
Noncash financing activities		
Capital lease obligations incurred		47,854,957

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

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 2000

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

Description of business

Cogent Communications, Inc. (Cogent), was formed on August 9, 1999 (inception) as a Delaware corporation and is located in Washington, D.C. Cogent is a facilities-based Internet Services Provider (ISP), providing Internet access to multi-tenant office buildings in 11 major metropolitan areas in the United States. In 2001, Cogent formed Cogent Communications Group, Inc., (the Company), a Delaware corporation. Effective on March 14, 2001, Cogent's stockholders exchanged their outstanding common and preferred shares for an equal number of shares of the Company, and Cogent became a wholly owned subsidiary of the Company. All of Cogent's options for shares of common stock were also converted to options of the Company. The common and preferred shares of the Company include rights and privileges identical to the common and preferred shares of Cogent. This was a tax-free exchange that will be accounted for by the Company at Cogent's historical cost. Accordingly, the accompanying financial statements as of and for the periods ended December 31, 2000 and 1999, reflect the historical operating results and assets and liabilities of Cogent.

The Company's high-speed Internet access service is delivered to the Company's customers over a nationwide fiber-optic network. The Company's network is dedicated solely to Internet Protocol data traffic. The Company's network includes 30-year indefeasible rights of use (IRUs) to a nationwide fiber-optic intercity network of 12,484 route miles (24,968 fiber miles) of dark fiber from Williams

Communications, Inc. (Williams). These IRUs are configured in two rings that connect certain major metropolitan markets in the United States. In order to extend the Company's national backbone into local markets, the Company has entered into a leased fiber agreement with Metromedia Fiber Network Services, Inc. (MFN), to obtain intracity fiber under 25-year IRUs.

The Company's primary activities to date have included recruiting employees, obtaining financing, branding and marketing its products, obtaining customer orders and building access rights, and designing and constructing its fiber-optic network and facilities.

Segments

The Company's chief operating decision maker evaluates performance based upon underlying information of the Company as a whole. There are no additional reporting segments.

Development stage status, business risk, and liquidity

Until February 2001, when the Company began providing service to customers, the Company was in the development stage.

The Company operates in the rapidly evolving Internet services industry, which is subject to intense competition and rapid technological change, among other factors. The successful execution of the Company's business plan is dependent upon the availability of and access to network capacity, the availability and performance of the Company's network equipment, the availability of additional capital, the Company's ability to successfully market its products and services, and the Company's ability to manage its growth. Although management believes that the Company will successfully mitigate these risks, management cannot give assurances that it will be able to do so or that the Company will ever operate profitably.

In February 2000, the Company obtained $26 million in venture-backed funding through the issuance of Series A preferred stock. In March 2000, the Company secured a $280 million credit facility

from Cisco Systems Capital Corporation (Cisco Capital). In June 2000, the Company raised an additional $90 million in venture-backed funding through the issuance of Series B preferred stock. In January 2001, the credit facility with Cisco Capital was amended and increased to $310 million. Substantial time may pass before significant revenues are realized, and additional funds will be required to implement the Company's business plan. Management expects that the proceeds from the issuance of preferred stock and the availability under the Cisco credit facility will be sufficient to fund the Company's operations for 2001.

Principles of consolidation

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

Revenue recognition

The Company recognizes service revenue in the month in which the service is provided. All expenses related to services provided are expensed as incurred. Cash received in advance of revenue earned is recorded as deferred revenue and is recognized over the service period or, in the case of installation fees, the estimated customer life.

Network operations

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

Financial instruments

The Company considers all highly liquid investments with an original maturity of three months or less at purchase to be cash equivalents. The Company determines the appropriate classification of its investments at the time of purchase and reevaluates such designation at each balance sheet date. At December 31, 2000, the Company's marketable securities consisted of money market accounts and commercial paper, all with original maturities of three months or less.

In the ordinary course of business with its vendors, the Company is party to letters of credit totaling $900,000 as of December 31, 2000. No claims have been made against these financial instruments. Management does not expect any losses from the resolution of these financial instruments and is of the opinion that the fair value is zero since performance is not likely to be required.

At December 31, 1999 and 2000, the carrying amount of cash and cash equivalents approximated fair value because of the short maturity of these instruments. The interest rate on the Company's Cisco credit facility resets on a quarterly basis; accordingly, as of December 31, 2000, the fair value of the Company's long-term debt approximated the carrying amount.

Credit risk

The Company's assets that are exposed to credit risk consist of its cash equivalents. The Company places its cash equivalents in instruments that meet high-quality credit standards as specified in the Company's investment policy guidelines.

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. The direct costs incurred prior to an asset being ready for service are reflected as construction in progress. Interest is capitalized during the construction period based upon the rates applicable to borrowings outstanding during the period. Construction in progress includes costs incurred under the construction contract, interest, and the salaries and benefits of employees directly involved with the construction activities. Expenditures for maintenance and repairs are expensed as incurred. The 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.

Long-lived assets, include property and equipment, goodwill and identifiable intangible assets to be held and used, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be addressed. Impairment is determined by comparing the carrying value to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual dispositions. The Company considers expected cash flows and estimated future operating results, trends and other available information in assessing whether the carrying value of the assets is impaired. In the event an impairment exists, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset, which is generally determined using quoted market prices or valuation techniques such as the discounted present value of expected future cash flows, appraisals, or other pricing models as appropriate. The Company believes that no such impairment existed as of December 31, 1999 and 2000.

The Company's estimates of anticipated net revenues, the remaining estimated lives of tangible and intangible assets, or both, could be reduced significantly in the future due to changes in technology, regulation, available financing, or competition. As a result, the carrying amount of long-lived assets could be reduced materially in the future.

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 20 years, beginning when the IRU is ready for use
Network equipment	Five to seven years
Leasehold improvements	Shorter of lease term or useful life; generally 10 to 15 years
Software	Five years
Office and other equipment	Three to five years
System infrastructure	Ten years

Type of asset	Depreciation or amortization period

Use of estimates

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

Comprehensive Income

During the periods presented, the Company has not had any transactions that are required to be reported in comprehensive income.

Income taxes

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

Stock-based compensation

The Company accounts for its stock option plan in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation expense related to fixed employee stock options is recorded only if on the date of grant the fair value of the underlying stock exceeds the exercise price. The Company has adopted the disclosure only requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," which allows entities to continue to apply the provisions of APB Opinion No. 25 for transactions with employees and to provide pro forma net income disclosures as if the fair value based method of accounting, or minimum value method for private companies, described in SFAS No. 123 had been applied to employee stock option grants.

Basic and Diluted Net Loss Per Common Share

Basic net loss per common share is based on the weighted-average number of shares of common stock outstanding during each period, adjusted, using the if-converted method, for the effect of common stock equivalents arising from the assumed conversion of participating convertible securities, if dilutive. Diluted net loss per common share is based on the weighted-average number of shares of common stock outstanding during each period, adjusted for the effect of common stock equivalents arising from the assumed exercise of stock options, warrants, the conversion of preferred stock and conversion of participating convertible securities, if dilutive. Common stock equivalents have been excluded from the net loss per share calculation because their effect would be anti-dilutive.

The following is a calculation of the numerators and the denominators of the basic and diluted loss per common share computations.

	1999	2000
Net loss	$ (82,290)	$ (11,760,718)
Weighted-average shares of common stock outstanding	13,600,000	13,823,598
Basic and diluted net loss per common share	$(0.01)	$(0.85)

For the year ended December 31, 2000 and the period from inception to December 31, 1999, options to purchase 6,892,950 and 469,500 shares of common stock at weighted average exercise prices of $0.97 and $0.01 per share, respectively, are not included in the computation of diluted earnings per share as they are anti-dilutive. For the year ended December 31, 2000, 45,809,783 shares of preferred stock, which were convertible into 45,809,783 shares of common stock, were not included in the computation of diluted earnings per share as a result of their anti-dilutive effect.

2. Property and equipment:

Property and equipment consisted of the following:

	December 31, 1999	December 31, 2000
Owned assets:		
Network equipment	$	$ 67,389,954
Software		1,971,431
Office and other equipment		1,554,593
Leasehold improvements		64,047
Construction in progress		10,008,838
		80,988,863
Less Accumulated depreciation and amortization		(324,428)
		80,664,435
Assets under capital leases:		
IRUs		47,854,957
Less Accumulated depreciation and amortization		(13,580)
		47,841,377
Property and equipment, net	$	$ 128,505,812

Capitalized interest

In 2000, the Company capitalized $2,963,303 of interest that is included in construction in progress.

Indefeasible rights of use agreement

In April 2000, the Company entered into a dark fiber IRU contract with Williams for 12,484 fiber miles of fiber-optic cable at a cost of approximately $27.5 million. The Company paid approximately $20.6 million in 2000 and will pay approximately $6.9 million toward this IRU in 2001. In June 2000, the Company exercised its option to lease an additional 12,484 route miles for approximately $22.5 million. In 2000, the Company paid approximately $18.0 million toward this IRU (the Second IRU) and will pay an additional $4.5 million in 2001. These IRUs are for an initial 20-year period with, under certain conditions, two renewal terms of five years each. Under this agreement, Williams also provides co-location services and maintenance on both fibers for monthly fees.

3. Long-term debt:

In March 2000, the Company entered into a $280 million credit facility (the Facility) with Cisco Capital. In March 2001, the Facility was increased to $310 million. The Facility is divided into two categories of borrowings. Under the first category, up to $238 million is available to finance purchases of Cisco network equipment, software, and related services from either Cisco or a reseller or distributor of Cisco products (Equipment Loans). The second category provides up to $72 million of funding available for working capital and general corporate purposes (Working Capital Loans). Working Capital Loans are limited to 35 percent of outstanding Equipment Loans. Borrowings under the Facility are available for up to five years.

The Facility requires compliance with certain subjective (i.e., material adverse change clauses) and financial covenants, among other conditions and restrictions, and required the payment of a 2 percent commitment fee ($6.2 million) that the Company has paid. The commitment fee is recorded in other assets in the accompanying consolidated balance sheet and is being amortized to interest expense over a period of eight years. The Facility also includes a 1.0 percent per annum unused facility fee, payable quarterly. Borrowings may be prepaid at any time without penalty and are subject to mandatory prepayment based upon excess cash flow or upon the receipt of a specified amount from the sale of the Company's securities, each as defined. Repayments are made quarterly with repayment periods ranging from four to six years. Borrowings accrue interest at the three-month LIBOR rate, established at the beginning of each calendar quarter, plus a margin of 4.5 percent per annum. The margin is dependent upon the Company's leverage ratio, as defined, and may be reduced down to as low as 1.5 percent. Interest is payable quarterly. Borrowings are secured by a pledge of all of the Company's assets. The Facility provides for the issuance of warrants to Cisco Capital to purchase the Company's common stock in connection with Working Capital Loans. The warrants enable Cisco Capital to acquire 30,937.5 shares of the Company's common stock for each $1.0 million of Working Capital Loans made. The exercise price of the warrants is based upon the most recent significant equity transaction, as defined in the Facility. The Company has not utilized the Working Capital Loan availability under the Facility.

As of December 31, 2000, the Company had violated certain debt covenants related to minimum customers and revenues. In March 2001, the Company obtained an amendment to the credit facility and the Company was in compliance with the amended agreement. The Company is subject to similar covenants in the future.

The Company began entering into Equipment Loans in August 2000. At December 31, 2000, there was $67.2 million of Equipment Loans outstanding accruing interest at 11.16 percent. The weighted-average interest rate for the period from August 2000 to December 31, 2000, was approximately 11.20 percent. Borrowings under these Equipment Loans are to be repaid beginning in March 2002 and ending in March 2008. Subsequent to year-end, and through March 15, 2001, the Company borrowed an additional $4.9 million of Equipment Loans to finance additional equipment purchases.

Maturities of borrowings under the Facility are as follows:

For the year ending December 31	
2002	$ 5,031,973
2003	6,711,954
2004	6,732,874
2005	11,772,817
Thereafter	36,989,467
	$ 67,239,085

4. Deferred equipment discount:

In June 2000, the Company amended its product purchase agreement with Cisco (see Note 6). In connection with the amendment, Cisco agreed to pay the Company a total of $22.5 million, with $16.9 million paid in 2000 and $5.6 million to be paid in 2001. These payments are recorded as a deferred equipment discount and will be amortized as a reduction to depreciation expense over a seven-year period as the related equipment is placed in service.

5. Income taxes:

The net deferred tax asset comprised the following:

	December 31	
	1999	2000
Net operating loss carryforwards	$	$ 3,888,649
Depreciation		(190,544)
Start-up expenditures	33,393	760,070
Accrued liabilities		344,236

	December 31	
Valuation allowance	(33,393)	(4,802,411)
Net deferred tax asset	$	$

Due to the uncertainty surrounding the realization of its net deferred tax asset, the Company has recorded a valuation allowance for the full amount of its net deferred tax asset. Should the Company achieve profitability, its deferred tax assets may be available to offset future income tax liabilities. The federal and state net operating loss carryforwards of $9.6 million expire in 2019 and 2020. For federal and state tax purposes, the Company's net operating loss carryforwards could be subject to certain limitations on annual utilization if certain changes in ownership were to occur as defined by federal and state tax laws.

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

	1999	2000
Federal income tax (benefit) at statutory rates	(34.0)%	(34.0)%
State income tax (benefit) at statutory rates, net of Federal benefit	(6.6)	(6.6)
Increase in valuation allowance	40.6	40.6
Effective income tax rate	%	%

6. Commitments and contingencies:

Fiber lease agreements

In February 2000, the Company entered into an agreement with MFN to lease fiber-optic cable for its intracity fiber-optic rings and to provide the Company access for providing its service to certain multi-tenant office buildings. Each product order includes a lease of an intracity fiber-optic ring for a period of up to 25 years and access to certain specified buildings for monthly payments. The agreement provides for a minimum commitment of 2,500 leased fiber miles and 500 connected buildings within five years from the effective date. In the event of early termination of the lease agreement, a termination charge would be assessed. The termination charge declines from $23 million in Year 1 to $7.7 million if the agreement is terminated in Years 6-20. Under the agreements, MFN also provides installation, maintenance, restoration, and network monitoring services at no additional cost. Through March 15, 2001, the Company has submitted orders to MFN for approximately 2,425 fiber miles and 256 buildings. Each lease of an intracity fiber-optic ring will be treated as a capital lease and recorded

once the Company has accepted the related fiber route. The future minimum commitment, including building access fees, under this agreement is as follows:

For the year ending December 31	
2001	$ 588,000
2002	588,000
2003	588,000
2004	588,000
2005	3,588,000
Thereafter	73,950,000
Total	$ 79,890,000

Equipment purchase commitment

In March 2000, the Company entered into a five-year commitment to purchase from Cisco, minimum annual amounts of equipment, professional services, and software. In June 2000, the agreement was amended to increase the Company's previous commitment to purchase $150.1 million over four years to a commitment to purchase $212.2 million over five years. As of December 31, 2000, the Company had purchased approximately $67.2 million toward this commitment, and approximately $44 million of purchase orders are outstanding. The annual commitment, as amended, is as follows:

Year		Amount
Year 1	$	71,100,000
Year 2		44,000,000
Year 3		48,400,000
Year 4		34,900,000
Year 5		13,800,000
Total	$	212,200,000

Operating leases and license agreements

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

Year ending December 31		
2001	$	4,671,844
2002		4,725,913
2003		4,625,166
2004		4,622,581
2005		4,488,872
Thereafter		24,065,304
	$	47,199,680

Rent expense was $722,602 in 2000. There was no rent expense in 1999.

Connectivity and transit agreements

In order to provide its service, the Company connects its customers and the buildings it serves to its national fiber-optic backbone and for its transit service to the Internet. The Company has secured

contracts that range from monthly charges to 36-month terms to provide this connectivity and to provide its service while certain segments of its fiber-optic backbone are under construction. The Company also pays Williams a monthly fee per route mile over a minimum of 20 years for the maintenance of its two national backbone fibers.

Future minimum obligations as of December 31, 2000, related to these arrangements are as follows:

Year ending December 31		
2001	$	7,021,358
2002		5,306,098
2003		4,848,525
2004		3,576,993
2005		3,648,532
Thereafter		64,357,504
	$	88,759,010

Trademark

In October 2000, the Company was notified that the use of the trade name Cogent Communications may conflict with pre-existing trademark rights. Management believes that this issue will be resolved without a material effect on the Company's financial position or results of operations.

Commercial paper investment

The Company has a $600,000 investment in a commercial paper issue of Pacific Gas and Electric Company (PG&E). When purchased in November 2000, this investment met the Company's investment guidelines. Subsequent to December 31, 2000, the borrowings of PG&E have been downgraded by rating agencies, and the investment no longer meets the Company's investment criteria. The current market price of this commercial paper investment was approximately $480,000 at March 15, 2001.

7. Stockholders' equity:

The Company has authorized 70,000,000 shares of $0.001 par value common stock, 26,000,000 shares of Series A Participating Convertible Preferred Stock (Series A), and 20,000,000 shares of Series B Participating Convertible Preferred Stock (Series B). The Company has reserved 46,000,000 shares of its common stock for the conversion of the Series A and Series B preferred stock, 9,900,000 shares of its common stock for issuance under its Equity Incentive Plan, and 2,227,500 shares of its common stock for the issuance of warrants under the Facility.

In February 2000, the Company authorized and issued 26,000,000 shares of Series A preferred stock for $26 million. The Series A contains voting rights at one vote per share equal to the number of shares of common stock into which the Series A shares can be converted. The Series A is senior to the common stock and includes a stated liquidation preference of the original purchase price of $1.00 per share plus interest at the three-month LIBOR rate plus a stated percentage. Each share of Series A is convertible, at any time, at the option of the holder into shares of common stock at the rate of one share of common stock for each share of Series A, subject to adjustment, and automatically converts under certain conditions, as defined in the certificate of incorporation.

In July 2000, the Company issued 19,809,783 shares of Series B preferred stock for approximately $90 million. The Series B contains voting rights at one vote per share equal to the number of shares of common stock into which the Series B shares can be converted, adjusted for dilutive issuances, as defined. The Series B is senior to the common stock and includes a stated liquidation preference of the

original purchase price of $4.55 per share plus interest at the three-month LIBOR rate plus a stated percentage. Each share of Series B is convertible, at any time, at the option of the holder into shares of common stock at the rate of one share of common stock for each share of Series B, subject to adjustment, and automatically converts under certain conditions, as defined in the certificate of incorporation.

The participation terms of the Series A and Series B provide that under a liquidation, as defined, after the liquidation preferences of the Series A and Series B noted above have been satisfied, all remaining assets of the Company are distributed ratably to all holders of preferred stock, as if converted to common stock, and to all holders of common stock. These distributions are made until the aggregate distribution to the Series A is $3.00 per share and the Series B is $9.10 per share, at which time all preferred shares are considered redeemed and are canceled.

8. Stock option plan:

In 1999, the Company adopted its Equity Incentive Plan (the Plan) for granting of options to employees, directors, and consultants. Options granted under the Plan may be designated as incentive or nonqualified at the discretion of the Plan administrator. Stock options granted under the Plan generally vest over a four-year period and have a term of ten years. Stock options exercised, granted, and canceled during the period from inception (August 9, 1999) to December 31, 2000, were as follows:

	Number of options	Weighted-average exercise price
Outstanding at inception (August 9, 1999)		$
Granted	469,500	0.01
Exercised		
Cancellations		
Outstanding at December 31, 1999	469,500	0.01
Granted	6,323,550	1.00

	Number of options	Weighted-average exercise price
Exercised	(406,977)	0.22
Cancellations	506,877	0.83
Outstanding at December 31, 2000	6,892,950	$ 0.97

Options exercisable as of December 31, 1999, were 234,750 with a weighted-average exercise price of $0.01. The weighted-average remaining contractual life of the outstanding options at December 31, 1999, was approximately 9.7 years. Options exercisable as of December 31, 2000, were 369,458 with a weighted-average exercise price of $0.75. The weighted-average remaining contractual life of the outstanding options at December 31, 2000, was approximately 9.5 years.

Pro forma information regarding net loss required by SFAS No.123 has been determined as if the Company had accounted for its stock options under the minimum value method and results in a pro forma net loss of $11,953,354 for 2000 and $83,387 for 1999. The weighted-average per share grant date fair value of options granted was $0.40 in 2000 and $0.005 in 1999. The fair value of these options was estimated at the date of grant using the minimum value method with the following weighted-average assumptions for the year ended December 31, 2000 an average risk-free rate of 5.25 percent, a dividend yield of 0 percent, and an expected life of 10 years, and for the year ended December 31, 1999 an average risk-free rate of 6.5 percent, a dividend yield of 0 percent, and an expected life of 10 years.

9. Related party:

The Company's headquarters is located in an office building owned by a partnership in which the Company's chief executive officer is the general partner. The Company was not charged for the use of this office space in 1999. The Company paid $333,366 in rent to this entity in 2000. In January 2000, the Company collected a $25,000 note receivable from its stockholder related to the stockholders' 1999 purchase of common shares.

COGENT COMMUNICATIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(IN THOUSANDS, EXCEPT SHARE DATA)

	As of September 30, 2001 (Unaudited)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 10,528
Accounts receivable, net	823
Prepaid expenses and other current assets	2,320
Total current assets	13,671
Property and Equipment:	
Property and equipment	220,840
Accumulated depreciation and amortization	(6,735)
Total property and equipment	214,105
Other Assets:	

		As of September 30, 2001 (Unaudited)
Deposits and other assets		2,133
Deferred financing costs Cisco credit facility		6,119
Intangible assets		11,740
Total other assets		19,992
Total assets	$	247,768
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable		5,524
Accrued liabilities		2,725
Accrued interest		3,081
Capital leases current portion		1,734
Total current liabilities		13,064
Cisco credit facility equipment loans		107,625
Cisco credit facility working capital loan		28,990
Capital leases, net of current portion		17,756
Deferred equipment discount		20,915
Total liabilities		188,350
Commitments and contingencies:		
Stockholders' Equity:		
Convertible preferred stock, Series A, $0.001 par value; 26,000,000 shares authorized; issued and outstanding; liquidation preference of $28,154		25,892
Convertible preferred stock, Series B, $0.001 par value; 20,000,000 shares authorized; 19,809,783 shares issued and outstanding; liquidation preference of $95,735		90,009
Common stock, $0.001 par value; 70,000,000 shares authorized; 14,086,142 shares issued and outstanding		14
Additional paid-in capital		194
Stock purchase warrants		583
Accumulated deficit		(57,274)
Total stockholders' equity		59,418
Total liabilities and stockholders' equity	$	247,768

The accompanying notes are an integral part of this condensed consolidated balance sheet.

COGENT COMMUNICATIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	Nine Months Ended September 30, 2000 (unaudited)	Nine Months Ended September 30, 2001 (unaudited)
Revenues		
Service revenue	$	$ 747
Operating expenses:		
Network operations	626	15,473
Selling, general, and administrative	5,010	21,756
Depreciation and amortization	85	5,955
Total operating expenses	5,721	43,184
Operating income (loss)	(5,721)	(42,437)
Interest income	2,103	1,565
Interest expense	(434)	(4,756)
Other income	83	198
Net income (loss)	$ (3,969)	$ (45,430)
Basic and diluted net loss per common share	$(0.30)	$(3.23)
Weighted-average common shares (basic and diluted)	13,913,416	14,047,813

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

COGENT COMMUNICATIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Nine Months Ended September 30, 2000 (unaudited)	Nine Months Ended September 30, 2001 (unaudited)
Cash flows from operating activities:		
Net loss	$ (3,969)	$ (45,430)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	85	5,955
Changes in assets and liabilities	(5,123)	9,184
Net cash used in operating activities	(9,007)	(30,291)
Cash flows from investing activities:		
Purchases of property and equipment	(36,745)	(72,157)
Purchase of NetRail assets		(11,740)
Net cash used in investing activities	(36,745)	(83,897)

	Nine Months Ended September 30, 2000 (unaudited)		Nine Months Ended September 30, 2001 (unaudited)
Cash flows from financing activities:			
Repayment of capital lease obligations	(19,974)		(10,268)
Collection of note from stockholder	25		
Proceeds from credit facility equipment loans	31,992		40,386
Proceeds from credit facility working capital loan			28,990
Proceeds from option exercises	19		15
Deferred equipment discount	8,988		
Issuances of preferred stock, net of issuance costs	115,901		
Net cash provided by financing activities	136,951		59,123
Net increase (decrease) in cash and cash equivalents	91,199		(55,065)
Cash and cash equivalents beginning of period			65,593
Cash and cash equivalents end of period	$ 91,199		$ 10,528
Supplemental Disclosure of Cash Flow Information:			
Cash paid for interest	$		$ 6,669
Cash paid for income taxes			
Non-Cash Financing Activities			
Capital lease obligations incurred	$ 47,854		$ 18,955
Issuance of warrants in connection with borrowings on working capital credit facility			583

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

COGENT COMMUNICATIONS GROUP, INC. AND SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2001
(UNAUDITED)**

1. Description of the Business and Summary of Significant Accounting Policies:

Description of Business

Cogent Communications, Inc. ("Cogent") was formed on August 9, 1999, as a Delaware corporation and is located in Washington, D.C. Cogent is a facilities-based Internet Services Provider ("ISP"), providing Internet access to multi-tenanted office buildings in approximately 20 major metropolitan areas in the United States. In 2001, Cogent formed Cogent Communications Group, Inc., (the "Company"), a Delaware corporation. Effective on March 14, 2001, Cogent's stockholders exchanged all of their outstanding common and preferred shares for an equal number of shares of the Company, and Cogent became a wholly owned subsidiary of the Company. The common and preferred shares of the Company include rights and privileges identical to the common and preferred shares of Cogent. This was a tax-free exchange that was accounted for by the Company at Cogent's historical cost. All of Cogent's options for shares of common stock were also converted to options of the Company.

The Company's high-speed Internet access service is delivered to the Company's customers over a nationwide fiber-optic network. The Company's network is dedicated solely to Internet Protocol data traffic. The Company's network includes 30-year indefeasible rights of use ("IRU's") to a nationwide fiber-optic intercity network of approximately 12,500 route miles (25,000 fiber miles) of dark fiber from Williams

Communications, Inc. ("Williams"). These IRU's are configured in two rings that connect many of the major metropolitan markets in the United States. In order to extend the Company's national backbone into local markets, the Company has entered into leased fiber agreements for intra-city dark fiber with Metromedia Fiber Network Services, Inc. ("MFN") and other providers. These agreements are primarily under 25 year IRU's.

The Company's primary activities to date have included recruiting employees, obtaining financing, branding and marketing its products, obtaining customer orders and building access rights, and designing and constructing its fiber-optic network and facilities.

Acquisitions

Allied Riser Communications Corporation

In August 2001, the Company entered into an agreement to merge with Allied Riser Communications Corporation ("ARCC"). Under the terms of the merger agreement as amended in October 2001, the Company is expected to issue approximately 13.36% of its common stock, on a fully diluted basis, to the existing ARCC stockholders. The merger is subject to the approval of the stockholders of both companies, the registration of the Company's common stock to be issued in the merger, the approval for trading of the Company's shares on the NASDAQ or a national securities exchange, and other conditions.

NetRail Inc.

On September 6, 2001, the Company paid approximately $12 million for major assets of NetRail, Inc, (NetRail) a Tier-1 Internet service provider, in a sale conducted under Chapter 11 of the United States Bankruptcy Code. Tier-1 service providers purchase Internet capacity from the major communications carriers and resell it to smaller service providers and other entities. The purchased

assets included certain customer contracts and the related accounts receivable, network equipment, and settlement-free peering arrangements with other Tier-1 Internet service providers.

The acquisition of the assets of NetRail, Inc. was recorded in the accompanying September 30, 2001 financial statements under the purchase method of accounting. Substantially all of the purchase price was allocated to the settlement-free peering agreements acquired from NetRail, Inc., which had an estimated fair value of $11.5 million. These contracts are being amortized over their average estimated contractual life of 3 years. The remainder of the purchase price was allocated to other current and noncurrent assets. The purchase price allocation for these acquisitions is preliminary and further refinements may be made. The operating results related to the acquired assets of NetRail, Inc. have been included in the consolidated statements of operations from the date of acquisition. If the acquisition had taken place at the beginning of 2000 the unaudited pro forma combined results of the Company for the nine months ended September 30, 2000 and 2001 would have been as follows.

	Nine Months Ended September 30, 2000	Nine Months Ended September 30, 2001
Revenue	$ 630	$ 2,405
Net Loss	(7,849)	(48,392)
Net loss per diluted share	$ (0.56)	(3.44)

In management's opinion, these unaudited pro forma amounts are not necessarily indicative of what the actual results of the combined results of operations might have been if the NetRail, Inc. asset acquisition had been effective at the beginning of 2000.

Business Risk and Liquidity

The Company operates in the rapidly evolving Internet services industry, which is subject to intense competition and rapid technological change, among other factors. The successful execution of the Company's business plan is dependent upon the availability of and access to network capacity, the availability and performance of the Company's network equipment, the availability of additional capital, the Company's ability to successfully market its products and services, and the Company's ability to manage its growth. Although management believes that the Company will successfully mitigate these risks, management cannot give assurances that it will be able to do so or that the Company will ever operate profitably.

The Company has obtained $178 million in venture-backed funding through the issuance of preferred stock. The Company has secured a $409 million credit facility (the "Facility") from Cisco Systems Capital Corporation ("Cisco Capital"). Substantial time may pass before significant revenues are realized, and additional funds may be required to implement the Company's business plan. However, management expects that the proceeds from the issuance of preferred stock and the availability under the Facility will be sufficient to fund the Company's current business plan through fiscal 2002.

Basis of Presentation

The unaudited condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the consolidated financial statements reflect all normal recurring adjustments that the Company considers necessary for the fair presentation of the results of operations for the interim periods covered, and of the financial position of the Company at the date of the interim consolidated balance sheet. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The operating results for interim periods are not necessarily indicative of the operating results for the

entire year. While, the Company believes that the disclosures made are adequate to not make the information misleading, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes of Cogent as of December 31, 2000, included in this registration statement.

Segments

The Company's chief operating decision maker evaluates performance based upon underlying information of the Company as a whole. There are no additional reporting segments.

Comprehensive Income

Statement of Financial Accounting Standard ("SFAS") No. 130, "Reporting of Comprehensive Income" requires "comprehensive income" and the components of "other comprehensive income" to be reported in the financial statements and/or notes thereto. Since the Company does not have any components of "other comprehensive income", reported net loss is the same as "comprehensive loss" for the periods presented.

Stock-Based Compensation

The Company accounts for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. As such, compensation expense related to fixed employee stock options is recorded only if, on the date of grant, the fair value of the underlying stock exceeded the exercise price. The Company has adopted the disclosure only requirements of SFAS No. 123, "Accounting for Stock-Based Compensation", which allows entities to continue to apply the provisions of APB Opinion No. 25 for transactions with employees and provide pro-forma net income disclosures as if the fair-value based method of accounting, or minimum value method for private companies, described in SFAS No. 123 had been applied to employee stock option grants.

Basic and Diluted Net Loss Per Share

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

The following is a calculation of the numerators and the denominators of the basic and diluted loss per common share computations (in thousands except share and per share data). All of the Company's common stock equivalents have been excluded from the net loss per share calculation because their effect would be anti-dilutive.

	Nine Months Ended September 30, 2000	Nine Months Ended September 30, 2001

Net loss	$ (3,969)	$ (45,430)
Weighted-average shares of common shares outstanding	13,913,416	14,047,813
Basic and diluted net loss per common share	$(0.30)	$(3.23)

For the nine-months ended September 30, 2000 and 2001 options to purchase 4,185,991 and 6,121,481 shares of common stock at weighted-average exercise prices of $0.82 and $1.05 per share, respectively, are not included in the computation of diluted earnings per share as they are anti-dilutive. As of September 30, 2000 and 2001, 45,809,783 shares of preferred stock, which were convertible into 45,809,783 shares of common stock, were not included in the computation of diluted earnings per share as a result of their anti-dilutive effect. As of September 30, 2001, warrants exercisable for 866,250 shares of common stock were not included in the computation of diluted earnings per share as a result of their anti-dilutive effect.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses financial accounting and reporting for business combinations. All business combinations in the scope of this Statement will be accounted for using the purchase method of accounting. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001, and business combinations accounted for by the purchase method for which the date of acquisition is July 1, 2001, or later. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. Under this Statement, goodwill will no longer be amortized but will be tested for impairment at least annually at the reporting unit level. Goodwill will be tested for impairment on an interim basis if an event occurs or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying value. Intangible assets which remain subject to amortization will be reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The provisions of SFAS No. 142 are required to be applied starting with fiscal years beginning after December 15, 2001. The proposed merger transaction with ARCC, if consummated, will be accounted for in accordance with SFAS No. 141 and No. 142. The NetRail transaction was accounted for in accordance with SFAS No. 141 and No. 142.

2. Indefeasible Right of Use Agreement

In April 2000, the Company entered into a dark fiber IRU contract with Williams for approximately 12,500 route miles (25,000 fiber miles) of dark fiber at a cost of approximately $27.5 million. Under this agreement, the Company paid $11.0 million in April 2000, $9.6 million in October 2000, and $5.5 million in April 2001 and $1.4 million in October 2001. In June 2000, the Company exercised its right to lease an additional 12,500 route miles (the "Second IRU") for approximately $22.5 million. Under the Second IRU agreement the Company paid $9.0 million in June 2000, $9.0 million in December 2000, and $4.5 million in June 2001. These IRU's are for initial 20-year periods, with, under certain conditions, two renewal terms of five years each. Under these agreements, Williams also provides co-location services and maintenance on both fibers for additional monthly fees. The Company's $22.5 million cost of the Second IRU is offset by $22.5 million of payments from Cisco Systems, Inc. (See Note 4). Under these arrangements, Cisco paid the Company $21.4 million through June 2001 and will pay an additional $1.1 million to the Company in December 2001.

3. Long Term Debt

In March 2000, Cogent entered into a $280 million credit facility (the "Facility") with Cisco Systems Capital Corporation. In March 2001, the Facility was increased to $310 million. In October 2001, Cogent entered into a new agreement for $409 million. In connection with the October 2001 agreement, the Company issued Cisco Capital warrants for an additional 6.2 million shares of its common stock and incurred a $2.0 million closing fee. The warrants are exercisable for

eight years from the grant date at an exercise prices of $3.04 and $1.25 per share. The October 2001 agreement matures on December 31, 2008.

This credit facility supercedes and replaces the existing $310 million credit facility between Cisco Capital and Cogent. Borrowings under the credit facility will become available in increments subject to Cogent's satisfaction of certain operational and financial covenants over time. Borrowings under the credit facility for the purchase of products and working capital will be available until December 31, 2004.

The Facility requires compliance with certain financial, subjective, and operational covenants, among other conditions and restrictions. During the nine-months ended September 30, 2001, Cogent violated certain debt covenants. However, Cogent is in compliance with the October 2001 agreement. Borrowings may be prepaid at any time without penalty and are subject to mandatory prepayment based upon excess cash flow or upon the receipt of a specified amount from the sale of the Company's securities, each as defined. Principal payments begin in March 2005. The Facility is classified on the accompanying September 30, 2001 balance sheet in accordance with the October 2001 agreement. Borrowings accrue interest at the three-month LIBOR rate, established at the beginning of each calendar quarter, plus a stated margin. The margin is dependent upon the Company's leverage ratio, as defined, and may be reduced. Interest payments are deferred and begin in March 2006. Borrowings are secured by a pledge of all of Cogent's assets and common stock. The Facility includes restrictions on Cogent's ability to transfer assets to the Company, except for certain operating liabilities. The Company has guaranteed Cogent's obligations under the Facility.

Warrants to purchase the Company's common stock were issued in connection with Working Capital Loans under the March 2001 agreement. The warrant exercise price was based upon the most recent significant equity transaction, as defined in the Facility. In June 2001, the Company borrowed $29.0 million of Working Capital Loans. This borrowing resulted in granting Cisco Capital warrants for 866,250 shares of common stock. The warrants have an exercise price of $3.04, and are exercisable for eight years. These warrants have been valued at $583,000 using the Black-Scholes method of valuation and are recorded as deferred financing costs and stock purchase warrants in the accompanying September 30, 2001 balance sheet. The debt discount will be amortized to interest expense over the term of the Facility.

The weighted average interest rate on all borrowings for the nine-month period ending September 30, 2001, was approximately 9.5% and 11.2% for the nine-month period ended September 30, 2000.

4. Deferred Equipment Discount

In June 2000, the Company amended its product purchase agreement with Cisco (See Note 6). In connection with the amendment, Cisco agreed to pay the Company a total of $22.5 million, with $16.9 million paid in 2000 and $5.6 million to be paid in 2001. The final payment of $1.1 million is due in December 2001. These payments are recorded as a deferred equipment discount and will be amortized as a reduction to depreciation expense over a seven-year period as the related equipment is placed in service.

5. Income taxes

The Company has approximately $55.0 million of net operating loss carryforwards available to offset future taxable income, if any, through 2021. Due to the uncertainty surrounding the realization of this deferred tax asset, the Company has recorded a valuation allowance for the full amount of its net deferred tax asset. Should the Company achieve profitability, the net operating loss carryforward and the Company's other deferred tax assets may be available to offset future income tax liabilities. For federal and state tax purposes, the Company's net operating loss carryforwards could be subject to

certain limitations on annual utilization if certain changes in ownership were to occur, as defined by federal and state tax laws.

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

	September 30, 2000	September 30, 2001
Federal income tax (benefit) at statutory rates	(34.0)%	(34.0)%
State income tax (benefit) at statutory rates, net of Federal benefit	(6.6)	(6.6)
Increase in valuation allowance	40.6	40.6
Effective income tax rate	%	%

6. Commitments and Contingencies:

Fiber Lease Agreements

In February 2000, the Company entered into an agreement with MFN to lease fiber-optic cable for its intra-city fiber-optic rings and to provide the Company access to provide its service to certain multi-tenant office buildings. Each product order includes a lease of an intra-city fiber-optic ring for a period of up to 25 years and access to certain specified buildings in exchange for monthly payments. The agreement provides for a minimum commitment of 2,500 leased fiber miles and 500 connected buildings within five years from the effective date and penalties for early termination. Under the agreement, MFN also provides installation, maintenance, restoration, and network monitoring services for no additional cost. Each lease of an intra-city fiber-optic ring is treated as a capital lease and recorded once the Company has accepted the related fiber route.

Equipment Purchase Commitment

In March 2000, the Company entered into a five-year commitment to purchase from Cisco, minimum annual amounts of equipment, professional services, and software. In June 2000, the agreement was amended to increase the Company's previous commitment to purchase $150.1 million over four years to a commitment to purchase $212.2 million over five years. In October 2001, the commitment was amended to increase the Company's previous commitment to purchase $270 million until December 2004. As of September 30, 2001, the Company has purchased approximately $107.6 million towards this commitment.

Trademark

In October 2000, the Company was notified that the use of the trade name Cogent Communications may conflict with pre-existing trademark rights. Management believes that this issue will be resolved without a material effect on the Company's financial position or results of operations.

7. Stockholders' Equity.

The Company has authorized 211,000,000 shares of $0.001 par value common stock, 26,000,000 shares of Series A Convertible Preferred Stock (Series A), and 20,000,000 shares of Series B Convertible Preferred Stock (Series B) and 52,137,643 shares of Series C Participating Convertible Preferred Stock (Series C).

In February 2000, the Company authorized and issued 26,000,000 shares of Series A preferred stock for $26 million. The Series A contains voting rights at one vote per share equal to the number of shares of common stock into which the Series A shares can be converted. The Series A is senior to the common stock and includes a stated liquidation preference of the original purchase price of $1.00 per

share plus interest at the three-month LIBOR rate plus a stated percentage. Each share of Series A is convertible, at any time, at the option of the holder into shares of common stock at the rate of one share of common stock for each share of Series A, subject to adjustment, and automatically converts under certain conditions, as noted below.

In July 2000, the Company issued 19,809,783 shares of Series B preferred stock for approximately $90 million. The Series B contains voting rights at one vote per share equal to the number of shares of common stock into which the Series B shares can be converted. The Series B is senior to the common stock and includes a stated liquidation preference of the original purchase price of $4.55 per share plus interest at the three-month LIBOR rate plus a stated percentage. Each share of Series B is convertible, at any time, at the option of the holder into shares of common stock at the rate of 1.2979 shares of common stock for each share of Series B, subject to adjustment, and automatically converts under certain conditions, as noted below.

The participation terms of the Series A and Series B provide that under a liquidation or other transaction deemed to be a liquidation and after the liquidation preferences of the Series A and Series B noted above have been satisfied, all remaining assets of the Company are distributed ratably to all holders of preferred stock, as if converted to common stock, and to all holders of common stock. These distributions are made until the aggregate distribution to the Series A is $3.00 per share and the Series B is $9.10 per share, at which time all preferred shares are considered redeemed and are canceled.

In October 2001, the Company issued 49,773,401 shares of Series C preferred stock for approximately $62 million. The Series C contains voting rights at one vote per share equal to the number of shares into which the Series C can be converted.

Upon liquidation of Cogent, or other transaction deemed to be a liquidation, holders of Cogent's Series C preferred stock are entitled to receive certain preferences to holders of Cogent common stock. In the event of a liquidation, or other transaction deemed to be a liquidation, before holders of common stock receive any distribution, holders of Series C preferred stock will receive a stated liquidation preference of an amount equal to the greater of (i) $2.0091 or (ii) $1.2467 per share plus interest at the three-month LIBOR rate plus a stated percentage.

The participation terms of the Series C provide that under a liquidation or other transaction deemed to be a liquidation and after the liquidation preferences of the Series A, Series B and Series C noted above have been satisfied, all remaining assets of the Company are distributed ratably to all holders of the preferred stock, as if converted to common stock, and to all holders of common stock. These distributions are made until the aggregate distribution to the Series A and Series B is as noted above and the aggregate distribution to the Series C is $3.7401 per share, at which time all preferred shares are considered redeemed and are canceled.

Holders of Series C preferred stock shall be entitled to receive, when and as declared by the board of directors, cash dividends at a rate of 8% of the original Series C preferred stock purchase price per annum on each outstanding share of Series C preferred stock. Any partial payment will be made ratably among the holders of Series C preferred stock. Except for acquisitions of common stock by Cogent pursuant to agreements which permit the company to repurchase such shares at cost upon termination of services to the company or acquisitions of common stock in exercise of Cogent's right of first refusal to repurchase such shares, Cogent may not declare any dividends or make any other distribution on any other Cogent stock, called junior stock, until all dividends on the Series C preferred stock have been paid. If dividends are paid on any junior stock, Cogent shall pay an additional dividend on all outstanding shares of Series C preferred stock in an amount equal per share (on an as-if-converted to common stock basis) to the amount paid or set aside for each share of junior stock.

Shares of preferred stock may be converted to common stock at any time. Each share of Series C is convertible into shares of common stock at the rate of one share of common stock for each share of Series C, subject to adjustment. All shares of preferred stock will automatically be converted into common stock upon the election of 66.66% of the outstanding shares of preferred stock or immediately upon the closing of a firmly underwritten public offering in which the aggregate pre-money valuation of Cogent is at least $500,000,000 and in which the gross cash proceeds are at least $50,000,000.

If Cogent engages in a stock split or reverse stock split, the applicable conversion prices will be proportionately decreased or increased, as the case may be. If Cogent declares a common stock dividend or distribution, the conversion prices shall be adjusted by multiplying them by the quotient equal to the total number of shares of common stock issued and outstanding immediately prior to the issuance divided by the total number of shares of common stock issued and outstanding immediately prior to the issuance plus the number of shares of common stock issuable in payment of the dividend or distribution. If Cogent declares a dividend payable in securities of the corporation other than common stock, the common stock is changed to a different type of stock, or if there is a capital reorganization, holders of preferred stock shall be entitled, upon conversion of their preferred stock, to receive an amount of securities or property equivalent to what they would have received if they had converted their preferred stock to common stock on the date of the dividend, reclassification, recapitalization, or capital reorganization.

If Cogent issues or sells additional shares of common stock for a price which is less than the then-effective Series A applicable conversion price in the case of Series A preferred stock, the Series B applicable conversion price in the case of Series B preferred stock, or the Series C applicable conversion price in the case of Series C preferred stock, then the conversion prices shall be reduced to prices calculated as prescribed by the certificate of incorporation.

The October 2001 issuance of Series C preferred stock resulted in an adjustment of the conversion rate of the Series B preferred stock from 1.0 shares of common stock per share of Series B preferred to 1.2979 shares of common stock per share of Series B preferred. This equates to an additional 5,901,983 shares of common stock. This transaction will result in a non-cash beneficial conversion charge of approximately $24.2 million to be recorded in the Company's fourth quarter 2001 financial statements as a reduction to retained earnings and earnings available to common shareholders and an increase to recorded equity.

8. Related Party

The Company's headquarters is located in an office building owned by an entity controlled by the Company's Chief Executive Officer. The Company paid $200,000 and $353,000 in rent to this entity for the nine months ended September 30, 2000 and September 30, 2001, respectively. In January 2000, the Company collected a $25,000 note receivable from its stockholder related to the stockholder's 1999 purchase of common shares.

The Company will record a deferred compensation charge of approximately $8.7 million in the fourth quarter of 2001 related to options granted at exercise prices below the estimated fair market value of the Company's common stock on the date of grant. The deferred compensation charge will be amortized over the vesting period of the related options which is generally four years.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
Allied Riser Communications Corporation:

We have audited the accompanying consolidated balance sheets of Allied Riser Communications Corporation (a Delaware corporation) and subsidiaries as of December 31, 1999 and 2000, and the related consolidated statements of income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Allied Riser Communications Corporation and subsidiaries as of December 31, 1999 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Dallas, Texas,

January 24, 2001 (except with respect to the matter discussed in Note 14, as to which the date is February 23, 2001)

ALLIED RISER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1999 AND 2000
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	1999	2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 152,564	$ 29,455
Short-term investments	162,013	212,107
Accounts receivable, net of reserve of $19 and $196 in 1999 and 2000, respectively	259	3,912
Prepaid expenses and other current assets	5,454	5,606
Total current assets	320,290	251,080
PROPERTY AND EQUIPMENT, net	46,577	182,442
REAL ESTATE ACCESS RIGHTS, net of accumulated amortization of $2,036 and $16,003 in 1999 and 2000, respectively	107,099	133,003
GOODWILL AND OTHER INTANGIBLE ASSETS, net of accumulated amortization of $0 and $2,592 in 1999 and 2000, respectively		12,118
OTHER ASSETS, net	1,088	11,060
Total assets	$ 475,054	$ 589,703
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 10,693	$ 17,904

	1999	2000
Accrued liabilities	4,219	21,037
Current maturities of capital lease obligations	3,049	32,229
Current maturities of debt		713
Total current liabilities	17,961	71,883
CAPITAL LEASE OBLIGATIONS, net of current maturities	4,679	41,290
CONVERTIBLE NOTES (7.50% interest payable in stock or cash)		150,000
Total liabilities	22,640	263,173
COMMITMENTS AND CONTINGENCIES (see Note 7)		
STOCKHOLDERS' EQUITY:		
Common stock, $.0001 par value, 1,000,000,000 shares authorized, 56,569,000 and 58,561,000 outstanding as of December 31, 1999 and 2000, respectively (net of 96,000 and 675,000 treasury shares, respectively)	6	6
Additional paid-in capital	434,930	460,137
Warrants, authorizing the issuance of 6,336,000 and 7,377,000 shares as of December 31, 1999 and 2000, respectively	109,135	127,846
Deferred compensation	(17,654)	(13,501)
Accumulated other comprehensive income (loss)		(547)
Accumulated deficit	(74,003)	(247,411)
Total stockholders' equity	452,414	326,530
Total liabilities and stockholders' equity	$ 475,054	$ 589,703

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

ALLIED RISER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	1998	1999	2000
REVENUE:			
Network services	$ 212	$ 1,422	$ 10,969
Value added services		448	3,363
Total revenue	212	1,870	14,332
OPERATING EXPENSES:			
Network operations	2,358	7,554	43,389
Cost of value added services		128	2,356
Selling expense	1,623	9,296	44,535
General and administrative expenses	9,736	25,981	60,763
Depreciation and amortization	499	5,007	36,155

	1998	1999	2000
Amortization of deferred compensation		14,681	9,418
Total operating expenses	14,216	62,647	196,616
OPERATING INCOME (LOSS)	(14,004)	(60,777)	(182,284)
OTHER INCOME (EXPENSE):			
Interest expense	(724)	(1,275)	(9,348)
Interest and other income	118	4,564	18,224
Total other income (expense)	(606)	3,289	8,876
INCOME (LOSS) BEFORE INCOME TAXES	(14,610)	(57,488)	(173,408)
PROVISION FOR INCOME TAXES			
NET INCOME (LOSS)	(14,610)	(57,488)	(173,408)
ACCRUED DIVIDENDS ON PREFERRED STOCK	(452)	(6,452)	
NET INCOME (LOSS) APPLICABLE TO COMMON STOCK	$ (15,062)	$ (63,940)	$ (173,408)
NET INCOME (LOSS) PER COMMON SHARE	$(8.09)	$(2.15)	$(3.18)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	1,862,000	29,736,000	54,472,000

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

ALLIED RISER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000
(IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)

	Common Stock			Warrants						
	Number of Shares	Amount	Additional Paid-In Capital	Number of Shares	Amount	Deferred Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Equity Total	Comprehensive Income
BALANCE, December 31, 1997	241,000	$	$ 163		$	$	$ (1,905)	$	$ (1,742)	$
Net income (loss)							(14,610)		(14,610)	(14,610)
Other comprehensive income foreign currency translation adjustment										
Comprehensive income										(14,610)
Issuance of common stock, net of issuance costs	25,475,000	3	(316)						(313)	

	Common Stock			Warrants						
Capital contribution			980						980	
Accrued cumulative dividends on preferred stock			(452)						(452)	
BALANCE, December 31, 1998	25,716,000	3	375				(16,515)		(16,137)	
Net income (loss)							(57,488)		(57,488)	(57,488)
Other comprehensive income foreign currency translation adjustment										
Comprehensive income										(57,488)
Issuance of common stock, net of stock repurchases and issuance costs	24,353,000	2	284,768						284,770	
Conversion of preferred stock	6,500,000	1	123,904						123,905	
Issuance of warrants				6,336,000	109,135				109,135	
Accrued cumulative dividends on preferred stock			(6,452)						(6,452)	
Deferred compensation			32,335			(32,335)				
Amortization of deferred compensation						14,681			14,681	
BALANCE, December 31, 1999	56,569,000	6	434,930	6,336,000	109,135	(17,654)	(74,003)		452,414	
Net income (loss)							(173,408)		(173,408)	(173,408)
Other comprehensive income foreign currency translation adjustment								(547)	(547)	(547)
Comprehensive income										$ (173,955)
Issuance of common stock, net of stock repurchases and issuance costs	1,280,000		5,278						5,278	
Issuance of warrants				1,753,000	33,375				33,375	
Exercise of warrants	712,000		14,664	(712,000)	(14,664)					
Deferred compensation			5,265			(5,265)				
Amortization of deferred compensation						9,418			9,418	
BALANCE, December 31, 2000	58,561,000	$ 6	$ 460,137	7,377,000	$ 127,846	$ (13,501)	$ (247,411)	$ (547)	$ 326,530	

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

ALLIED RISER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000
(IN THOUSANDS)

	1998	1999	2000

CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (14,610)	$ (57,488)	$ (173,408)
Adjustments to reconcile net income (loss) to net cash used in operating activities			
Depreciation and amortization	499	19,688	45,573
Changes in assets and liabilities, net of the effect of acquisitions			
Increase in accounts receivable, net	(20)	(239)	(2,260)
(Increase) decrease in prepaid expenses	(128)	(5,316)	515
(Increase) decrease in other assets	(992)	1,299	(4,673)
Increase in accounts payable and accrued liabilities	2,454	11,799	15,718
Net cash used in operating activities	(12,797)	(30,257)	(118,535)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(9,738)	(28,790)	(79,815)
Purchases of short-term investments, net		(162,013)	(50,094)
Acquisition of businesses, net of cash acquired			(14,745)
Net cash used in investing activities	(9,738)	(190,803)	(144,654)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from convertible notes, net of offering cost	15,100		145,003
Payments on capital lease obligations	(373)	(2,167)	(6,023)
Payments of debt	(17,668)		(391)
Proceeds from issuance of common stock and sale of subsidiary stock, net of issuance costs	(321)	284,770	1,728
Proceeds from issuance of preferred stock	66,000	51,000	
Credit facility origination fee		(1,350)	
Capital contribution	980		
Net cash provided by financing activities	63,718	332,253	140,317
EFFECT OF EXCHANGE RATE CHANGES ON CASH			(237)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	41,183	111,193	(123,109)
CASH AND CASH EQUIVALENTS, beginning of period	188	41,371	152,564
CASH AND CASH EQUIVALENTS, end of period	$ 41,371	$ 152,564	$ 29,455
SUPPLEMENTARY CASH FLOW DISCLOSURES:			
Payments for interest	$ 113	$ 569	$ 6,836
Noncash investing and financing activities Equipment acquired under capital leases Total other expense, net	172,688	252,640	267,141

	1998	1999	2000
Income from continuing operations before income taxes	170,807	7,987	4,061
Income tax (provision) benefit	(3,006)	197,486	6,634
Income from continuing operations, net of tax	167,801	205,473	10,695
Income from discontinued operations, net of tax	21,392	212,530	36,539
Net income	$ 189,193	$ 418,003	$ 47,234
Basic net income per common share			
Continuing operations	$ 1.46	$ 1.79	$ 0.10
Discontinued operations	0.19	1.86	0.32
Basic net income per common share	$ 1.65	$ 3.65	$ 0.42
Weighted average basic shares outstanding	114,957	114,507	112,789
Diluted net income per common share			
Continuing operations	$ 1.45	$ 1.78	$ 0.10
Discontinued operations	0.19	1.85	0.32
Diluted net income per common share	$ 1.64	$ 3.63	$ 0.42
Weighted average	115,628	115,189	113,676

	1998	1999	2000
Dividends per common share	$ 0.15	$ —	$ —

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

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BOYD GAMING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
(In thousands)	2017	2016	2015
Net income	$189,193	$418,003	$47,234
Other comprehensive income (loss), net of tax:			
Fair value of adjustments to available-for-sale securities	433	(299)	(263)
Comprehensive income	$189,626	$417,704	$46,971

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

BOYD GAMING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Boyd Gaming Corporation Stockholders' Equity						
	Common Stock		Additional Paid-in	Retained Earnings/ (Accumulated	Accumulated Other Comprehensive Income	Noncontrolling	Total Stockholders'
(In thousands, except share data)	Shares	Amount	Capital	Deficit)	(Loss), Net	Interest	Equity
Balances, January 1, 2015	109,277,060	$1,093	$922,112	$(485,115)	$(53)	$50	$438,087
Net income	—	—	—	47,234	—	—	47,234
Comprehensive loss attributable to Boyd	—	—	—	—	(263)	—	(263)
Stock options exercised	1,301,789	13	9,794	—	—	—	9,807
Release of restricted stock units, net of tax	553,822	6	(3,678)	—	—	—	(3,672)
Release of performance stock units, net of tax	481,749	5	(2,451)	—	—	—	(2,446)
Share-based compensation costs	—	—	19,264	—	—	—	19,264
Balances, December 31, 2015	111,614,420	1,117	945,041	(437,881)	(316)	50	508,011
Net income	—	—	—	418,003	—	—	418,003
Comprehensive loss attributable to Boyd	—	—	—	—	(299)	—	(299)
Stock options exercised	452,898	4	2,936	—	—	—	2,940
Release of restricted stock units, net of tax	670,032	6	(3,374)	—	—	—	(3,368)
Release of performance stock units, net of tax	159,027	2	(869)	—	—	—	(867)
Tax effect from share-based compensation arrangements	—	—	(5,812)	—	—	—	(5,812)
Share-based compensation costs	—	—	15,518	—	—	—	15,518
Balances, December 31, 2016	112,896,377	1,129	953,440	(19,878)	(615)	50	934,126
Cumulative effect of change in accounting principle, adoption of Update 2016-09	—	—	—	15,777	—	—	15,777
Net income	—	—	—	189,193	—	—	189,193
Comprehensive income attributable to Boyd	—	—	—	—	433	—	433
Stock options exercised	241,964	2	2,082	—	—	—	2,084
Release of restricted stock units, net of tax	520,854	5	(8,009)	—	—	—	(8,004)
Release of performance stock units, net of tax	173,653	2	(1,793)	—	—	—	(1,791)
Dividends Declared	—	—	—	(16,918)	—	—	(16,918)
Shares repurchased and retired	(1,198,430)	(12)	(31,915)	—	—	—	(31,927)
Share-based compensation costs	—	—	17,413	—	—	—	17,413
Other	—	—	640	—	—	(50)	590

Balances, December 31, 2017	112,634,418	$1,126	$931,858	$168,174	$ (182)	$ —	$1,100,976

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

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BOYD GAMING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(In thousands)	2017	2016	2015
Cash Flows from Operating Activities			
Net income	$189,193	$418,003	$47,234
Adjustments to reconcile net income to net cash provided by operating activities:			
Income from discontinued operations, net of tax	(21,392)	(212,530)	(36,539)
Depreciation and amortization	217,522	196,226	207,118
Amortization of debt financing costs and discounts on debt	9,845	14,870	21,308
Share-based compensation expense	17,413	15,518	19,264
Deferred income taxes	5,095	(199,051)	16,846
Non-cash impairment of assets	—	38,302	18,565
Gain on sale of assets	(1,027)	(6,288)	—
Loss on early extinguishments and modifications of debt	1,582	42,364	40,733
Other operating activities	(2,033)	1,625	2,145
Changes in operating assets and liabilities:			
Restricted cash	(7,687)	2,542	(923)
Accounts receivable, net	(9,937)	45	1,971
Inventories	565	884	(301)
Prepaid expenses and other current assets	4,957	1,691	(4,275)
Current other tax asset	—	—	1,802
Income taxes receivable	1,089	(1,064)	(137)
Other long-term tax assets, net	(5,183)	—	—
Other assets, net	2,318	(626)	922
Accounts payable and accrued liabilities	13,521	(11,824)	13,207
Other long-term tax liabilities	140	222	(25,566)
Other liabilities	(1,117)	1,972	2,377
Net cash provided by operating activities	414,864	302,881	325,751
Cash Flows from Investing Activities			
Capital expenditures	(190,464)	(160,358)	(131,170)
Cash paid for acquisitions, net of cash received	(1,153)	(592,703)	—
Advances pursuant to development agreement	(35,108)	—	—
Other investing activities	706	14,207	4,528
Net cash used in investing activities	(226,019)	(738,854)	(126,642)

BOYD GAMING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)

	Year Ended December 31,		
(In thousands)	2017	2016	2015
Cash Flows from Financing Activities			
Borrowings under Boyd Gaming bank credit facility	958,000	2,039,175	1,033,500
Payments under Boyd Gaming bank credit facility	(1,119,485)	(1,466,362)	(1,211,200)
Borrowings under Peninsula bank credit facility	—	237,000	345,500
Payments under Peninsula bank credit facility	—	(899,750)	(425,150)
Proceeds from issuance of senior notes	—	750,000	750,000
Debt financing costs, net	(3,430)	(42,220)	(14,004)
Retirements of senior notes	—	(700,000)	(657,813)
Premium and consent fees paid	—	(15,750)	(24,246)
Share-based compensation activities, net	(7,711)	(1,295)	3,689
Shares repurchased and retired	(31,927)	—	—
Dividends paid	(11,286)	—	—
Other financing activities	503	(45)	—
Net cash used in financing activities	(215,336)	(99,247)	(199,724)
Cash Flows from Discontinued Operations			
Cash flows from operating activities	(514)	(27,796)	14,095
Cash flows from investing activities	36,247	598,057	—
Cash flows from financing activities	—	—	—
Net cash provided by discontinued operations	35,733	570,261	14,095
Change in cash and cash equivalents	9,242	35,041	13,480
Cash and cash equivalents, beginning of period	193,862	158,821	145,341
Cash and cash equivalents, end of period	$203,104	$193,862	$158,821
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest, net of amounts capitalized	$174,090	$197,475	$178,433
Cash paid (received) for income taxes, net of refunds	5,189	33,723	(1,159)
Supplemental Schedule of Non-cash Investing and Financing Activities			
Payables incurred for capital expenditures	$9,297	$9,334	$7,235

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Boyd Gaming Corporation (and together with its subsidiaries, the "Company", the "Registrant", "Boyd Gaming", "Boyd", "we" or "us") was incorporated in the state of Nevada in 1988 and has been operating since 1975. The Company's common stock is traded on the New York Stock Exchange under the symbol "BYD".

As of December 31, 2017, we are a diversified operator of 24 wholly owned gaming entertainment properties. Headquartered in Las Vegas, we have gaming operations in Nevada, Illinois, Indiana, Iowa, Kansas, Louisiana and Mississippi, which we aggregate in order to present the following three reportable segments:

Las Vegas Locals	
Gold Coast Hotel and Casino	Las Vegas, Nevada
The Orleans Hotel and Casino	Las Vegas, Nevada
Sam's Town Hotel and Gambling Hall	Las Vegas, Nevada
Suncoast Hotel and Casino	Las Vegas, Nevada
Eastside Cannery Casino and Hotel	Las Vegas, Nevada
Aliante Casino + Hotel + Spa	North Las Vegas, Nevada
Cannery Casino Hotel	North Las Vegas, Nevada
Eldorado Casino	Henderson, Nevada
Jokers Wild Casino	Henderson, Nevada
Downtown Las Vegas	
California Hotel and Casino	Las Vegas, Nevada
Fremont Hotel and Casino	Las Vegas, Nevada
Main Street Station Casino, Brewery and Hotel	Las Vegas, Nevada
Midwest and South	
Par-A-Dice Hotel Casino	East Peoria, Illinois
Blue Chip Casino, Hotel & Spa	Michigan City, Indiana
Diamond Jo Dubuque	Dubuque, Iowa
Diamond Jo Worth	Northwood, Iowa
Kansas Star Casino	Mulvane, Kansas
Amelia Belle Casino	Amelia, Louisiana
Delta Downs Racetrack Casino & Hotel	Vinton, Louisiana
Evangeline Downs Racetrack and Casino	Opelousas, Louisiana
Sam's Town Hotel and Casino	Shreveport, Louisiana
Treasure Chest Casino	Kenner, Louisiana
IP Casino Resort Spa	Biloxi, Mississippi
Sam's Town Hotel and Gambling Hall	Tunica, Mississippi

As a result of the sale of our equity interest in Borgata (see Note 2, Acquisitions and Divestitures), we no longer report our interest in Borgata as a Reportable Segment.

Our Las Vegas Locals segment includes the results of Aliante Gaming, LLC ("Aliante"), The Cannery Hotel and Casino, LLC (“Cannery”) and Nevada Palace, LLC (“Eastside Cannery”) (see Note 2, Acquisitions and Divestitures).

In addition to these properties, we own and operate a travel agency and a captive insurance company that underwrites travel-related insurance, each located in Hawaii. Financial results for our travel agency and our captive insurance company are included in our Downtown Las Vegas segment, as our Downtown Las Vegas properties concentrate significant marketing efforts on gaming customers from Hawaii.

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BOYD GAMING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015

Basis of Presentation
The consolidated financial statements include the accounts of the Company and its subsidiaries.

See Note 2, Acquisitions and Divestitures, for discussion of our acquisitions of Aliante, Cannery and Eastside Cannery, which were completed during the year ended December 31, 2016. We have not disclosed the pro forma impact of these acquisitions to our results of operations, as the pro forma impact was deemed immaterial.

Investments in unconsolidated affiliates, which are 50% or less owned and do not meet the consolidation criteria of the authoritative accounting guidance for voting interest, controlling interest or variable interest entities, are accounted for under the equity method.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Discontinued Operations
On August 1, 2016, Boyd Gaming completed the sale of its 50% equity interest in Marina District Development Holding Company, LLC ("MDDHC"), the parent company of Borgata, to MGM Resorts International ("MGM") pursuant to an Equity Purchase Agreement (the "Purchase Agreement") enter into on May 31, 2016, as amended on July 19, 2016 by and among Boyd, Boyd Atlantic City, Inc., a wholly owned subsidiary of Boyd, and MGM. (See Note 2, Acquisitions and Divestitures.) We accounted for our investment in Borgata by applying the equity method and reported its results as discontinued operations for all periods presented in these consolidated financial statements.

Cash and Cash Equivalents
Cash and cash equivalents include highly liquid investments with maturities of three months or less at their date of purchase, and are on deposit with high credit quality financial institutions. Although these balances may at times exceed the federal insured deposit limit, we believe such risk is mitigated by the quality of the institution holding such deposit. The carrying values of these instruments approximate their fair values as such balances are generally available on demand.

Restricted Cash
Restricted cash consists primarily of advance payments related to: (i) future bookings with our Hawaiian travel agency; and (ii) amounts restricted by regulation for gaming and racing purposes. These restricted cash balances are invested in highly liquid instruments with a maturity of 90 days or less. These restricted cash balances are held by high credit quality financial institutions. The carrying value of these instruments approximates their fair value due to their short maturities.

Accounts Receivable, net
Accounts receivable consist primarily of casino, hotel and other receivables. Accounts receivable are typically non-interest bearing and are initially recorded at cost. Accounts are written off when management deems the account to be uncollectible, based upon historical collection experience, the age of the receivable and other relevant economic factors. An estimated allowance for doubtful accounts is maintained to reduce our receivables to their carrying amount. As a result, the net carrying value approximates fair value.

The activity comprising our allowance for doubtful accounts is as follows:

	Year Ended December 31,		
(In thousands)	2017	2016	2015
Beginning balance, January 1,	$1,971	$2,087	$1,971

Additions due to Acquisitions	—	87	—
Additions	478	345	361
Deductions	(377)	(548)	(245)
Ending balance	$2,072	$1,971	$2,087

Inventories

Inventories consist primarily of food and beverage and retail items and are stated at the lower of cost or market. Cost is determined using the weighted-average inventory method.

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Property and Equipment, net

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or, for leasehold improvements, over the shorter of the asset's useful life or term of the lease.

The estimated useful lives of our major components of property and equipment are:

Building and improvements	3 through 40 years
Riverboats and barges	5 through 40 years
Furniture and equipment	1 through 10 years

Gains or losses on disposals of assets are recognized as incurred. Costs of major improvements are capitalized, while costs of normal repairs and maintenance are charged to expense as incurred.

For an asset that is held for sale, we recognize the asset at the lower of carrying value or fair market value, less costs of disposal, as estimated based on comparable asset sales, solicited offers, or a discounted cash flow model. For a long-lived asset to be held and used, we review the asset for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We then compare the estimated undiscounted future cash flows of the asset to the carrying value of the asset. The asset is not impaired if the undiscounted future cash flows exceed its carrying value. If the carrying value exceeds the undiscounted future cash flows, then an impairment charge is recorded, typically measured using a discounted cash flow model, which is based on the estimated future results of the relevant reporting unit discounted using our weighted-average cost of capital and market indicators of terminal year free cash flow multiples. All resulting recognized impairment charges are recorded as Impairment of assets within operating expenses.

Capitalized Interest

Interest costs associated with major construction projects are capitalized as part of the cost of the constructed assets. When no debt is incurred specifically for a project, interest is capitalized on amounts expended for the project using our weighted-average cost of borrowing. Capitalization of interest ceases when the project (or discernible portions of the project) is substantially complete. If substantially all of the construction activities of a project are suspended, capitalization of interest will cease until such activities are resumed. Interest capitalized during the years ended December 31, 2016 and 2015 was $0.5 million and $0.1 million, respectively. There was no interest capitalized for the year ended December 31, 2017.

Investment in Available for Sale Securities

We have an investment in $20.5 million aggregate principal amount of 7.5% Urban Renewal Tax Increment Revenue Bonds, Taxable Series 2007 ("City Bonds"). This investment is classified as available-for-sale and is recorded at fair value. The fair value at December 31, 2017 and 2016 was $17.8 million and $17.3 million, respectively. At December 31, 2017 and 2016, $0.5 million and $0.4 million, respectively, is included in prepaid expenses and other current assets, and $17.3 million and $16.8 million, respectively, is included in other assets, net.

Future maturities of the City Bonds, excluding the discount, for the years ending December 31 are summarized as follows:

(In thousands)	
For the year ending December 31,	
2018	$475
2019	510
2020	550

2021	590
2022	635
Thereafter	17,760
Total	$20,520

Intangible Assets

Intangible assets include customer relationships, favorable lease rates, development agreements, gaming license rights and trademarks.

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Amortizing Intangible Assets
Customer relationships represent the value of repeat business associated with our customer loyalty programs. These intangible assets are being amortized on an accelerated method over their approximate useful life. Favorable lease rates represent the amount by which acquired lease rental rates are favorable to market terms. These favorable lease values are amortized over the remaining lease term, primarily on leasehold land interests, originally ranging in duration from 41 to 52 years. Development agreements are contracts between two parties establishing an agreement for development of a product or service. These agreements are amortized over the respective cash flow period of the related agreement.

Indefinite-Lived Intangible Assets
Trademarks are based on the value of our brands, which reflect the level of service and quality we provide and from which we generate repeat business. Gaming license rights represent the value of the license to conduct gaming in certain jurisdictions, which is subject to highly extensive regulatory oversight, and a limitation on the number of licenses available for issuance therein. These assets, considered indefinite-lived intangible assets, are not subject to amortization, but instead are subject to an annual impairment test, and between annual test dates in certain circumstances. If the fair value of an indefinite-lived intangible asset is less than its carrying amount, an impairment loss is recognized equal to the difference. License rights are tested for impairment using a discounted cash flow approach, and trademarks are tested for impairment using the relief-from-royalty method.

Goodwill
Goodwill is an asset representing the future economic benefits arising from other assets in a business combination that are not individually identified and separately recognized. Goodwill is not subject to amortization, but it is subject to an annual impairment test and between annual test dates in certain circumstances.

We evaluate goodwill using a weighted average allocation of both the income and market approach models. The income approach is based upon a discounted cash flow method, whereas the market approach uses the guideline public company method. Specifically, the income approach focuses on the expected cash flow of the subject reporting unit, considering the available cash flow for a finite period of years. Available cash flow is defined as the amount of cash that could be distributed as a dividend without impairing the future profitability or operations of the reporting unit. The underlying premise of the income approach is that the value of goodwill can be measured by the present value of the net economic benefit to be received over the life of the reporting unit. The market approach focuses on comparing the reporting unit to selected reasonably similar (or "guideline") publicly-traded companies. Under this method, valuation multiples are: (i) derived from the operating data of selected guideline companies; (ii) evaluated and adjusted based on the strengths and weaknesses of our reporting unit relative to the selected guideline companies; and (iii) applied to the operating data of our reporting unit to arrive at an indication of value. The application of the market approach results in an estimate of the price reasonably expected to be realized from the sale of the subject reporting unit.

Player Loyalty Point Program
We have established promotional programs to encourage repeat business from frequent and active slot machine customers and other patrons. Members earn points based on gaming activity and such points can be redeemed for complimentary slot play, food and beverage, and other free goods and services. We record points redeemed for complimentary slot play as a reduction to gaming revenue and points redeemed for food and beverage and other free goods and services as promotional allowances. The accrual for unredeemed points is based on estimates and assumptions regarding the redemption mix of complimentary slot play, food and beverage, and other free goods and

services and the costs of providing those benefits. Historical data is used to assist in the determination of the estimated accruals. The player loyalty point program accrual is included in accrued liabilities on our consolidated balance sheets.

Long-Term Debt, Net

Long-term debt, net is reported as the outstanding debt amount net of amortized cost. Any unamortized debt issuance costs, which include legal and other direct costs related to the issuance of our outstanding debt, or discount granted to the initial purchasers or lenders upon issuance of our debt instruments is recorded as a direct reduction to the face amount of our outstanding debt. The debt issuance costs and discount are accreted to interest expense using the effective interest method over the contractual term of the underlying debt. In the event that our debt is modified, repurchased or otherwise reduced prior to its original maturity date, we ratably reduce the unamortized debt issuance costs and discount and record a loss on extinguishment of debt.

Income Taxes

Income taxes are recorded under the asset and liability method, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We reduce the carrying amounts of deferred tax assets by a valuation allowance, if based on the available evidence it is more likely than not that such assets will not be realized. Use of the term "more likely than not" indicates the likelihood of occurrence is greater than 50%. Accordingly, the need to establish valuation allowances for deferred tax assets is continually assessed based on a more-likely-than-not realization threshold. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of profitability, the duration of statutory carryforward periods, our experience with the utilization of operating loss and tax credit carryforwards before expiration and tax planning strategies. In making such judgments, significant weight is given to evidence that can be objectively verified.

Other Long-Term Tax Liabilities

The Company's income tax returns are subject to examination by the Internal Revenue Service ("IRS") and other tax authorities in the locations where it operates. The Company assesses potentially unfavorable outcomes of such examinations based on accounting standards for uncertain income taxes, which prescribe a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements.

Uncertain tax position accounting standards apply to all tax positions related to income taxes. These accounting standards utilize a two-step approach for evaluating tax positions. Recognition occurs when the Company concludes that a tax position, based on its technical merits, is more likely than not to be sustained upon examination. Measurement is only addressed if the position is deemed to be more likely than not to be sustained. The tax benefit is measured as the largest amount of benefit that is more likely than not to be realized upon settlement.

Tax positions failing to qualify for initial recognition are recognized in the first subsequent interim period that they meet the "more likely than not" standard. If it is subsequently determined that a previously recognized tax position no longer meets the "more likely than not" standard, it is required that the tax position is derecognized. Accounting standards for uncertain tax positions specifically prohibit the use of a valuation allowance as a substitute for derecognition of tax positions. As applicable, the Company will recognize accrued penalties and interest related to unrecognized tax benefits in the provision for income taxes. Accrued interest and penalties are included in other long-term tax liabilities on the balance sheet.

Self-Insurance Reserves

We are self-insured for various insurance coverages such as property, general liability, employee health and workers' compensation costs with the appropriate levels of deductibles and retentions. Insurance claims and reserves include accruals of estimated settlements for known claims, as well as accruals of estimates for claims incurred but not yet reported. In estimating these accruals, we consider historical loss experience and make judgments about the expected levels of costs per claim. Management believes the estimates of future liability are reasonable based upon our methodology; however, changes in health care costs, accident frequency and severity and other factors could materially affect the estimate for these liabilities. Certain of these claims represent obligations to make future payments; and therefore, we discount such reserves to an amount representing the present value of the claims which will be paid in the future using a blended rate, which represents the inherent risk and the average payout duration. Self-insurance reserves are included in other liabilities on our consolidated balance sheets.

The activity comprising our self-insurance reserves is as follows:

Year Ended December 31,

(In thousands)	2017	2016	2015
Beginning balance	$31,022	$30,068	$33,004
Additions			
Charged to costs and expenses	84,209	79,685	80,311
Due to acquisitions	—	14	—
Payments made	(81,236)	(78,745)	(83,247)
Ending balance	$33,995	$31,022	$30,068

Accumulated Other Comprehensive Income (Loss)
Comprehensive income includes net income and other comprehensive income (loss). Components of the Company's comprehensive income are reported in the accompanying consolidated statements of changes in stockholders' equity and consolidated statements of comprehensive income. The accumulated other comprehensive income (loss) at December 31, 2017, consists of unrealized gains and losses on the investment available for sale resulting from changes in fair value.

Noncontrolling Interest
Noncontrolling interest represented the ownership interest in one of our subsidiaries that was held by a third party. During 2017, the joint venture in which we held an 80% interest was dissolved, thus eliminating our noncontrolling interest.

Revenue Recognition
Gaming revenue represents the net win from gaming activities, which is the aggregate difference between gaming wins and losses. The majority of our gaming revenue is counted in the form of cash and chips and therefore is not subject to any significant or complex estimation procedures. Cash discounts, commissions and other cash incentives to customers related to gaming play are recorded as a reduction of gross gaming revenues.

Race revenue recognition criteria are met at the time the results of the event are official.

Room revenue recognition criteria are met at the time of occupancy.

Food and beverage revenue recognition criteria are met at the time of service.

Promotional Allowances
The retail value of accommodations, food and beverage, and other services furnished to guests without charge is included in gross revenues and then deducted as a promotional allowance. Promotional allowances also include incentives earned in our slot bonus program such as cash and the estimated retail value of goods and services (such as complimentary rooms and food and beverages). We reward customers, through the use of bonus programs, with points based on amounts wagered that can be redeemed for a specified period of time for complimentary slot play, food and beverage, and to a lesser extent for other goods or services, depending upon the property.

The amounts included in promotional allowances are as follows:

	Year Ended December 31,		
(In thousands)	2017	2016	2015
Rooms	$76,029	$74,937	$77,177
Food and beverage	168,886	146,946	150,598
Other	14,455	13,694	14,870
Total promotional allowances	$259,370	$235,577	$242,645

The estimated costs of providing such promotional allowances are as follows:

	Year Ended December 31,		
(In thousands)	2017	2016	2015
Rooms	$33,584	$33,514	$35,605
Food and beverage	150,431	130,941	133,717
Other	13,315	12,417	12,290

Total cost of promotional allowances	$197,330	$176,872	$181,612

Gaming Taxes

We are subject to taxes based on gross gaming revenues in the jurisdictions in which we operate. These gaming taxes are assessed based on our gaming revenues and are recorded as a gaming expense in the consolidated statements of operations. These taxes totaled approximately $324.5 million, $321.7 million and $332.1 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Advertising Expense
Direct advertising costs are expensed the first time such advertising appears. Advertising costs are included in selling, general and administrative expenses on the consolidated statements of operations and totaled $29.9 million, $32.3 million and $33.4 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Corporate Expense
Corporate expense represents unallocated payroll, professional fees, aircraft costs and various other expenses that are not directly related to our casino hotel operations.

Project Development, Preopening and Writedowns
Project development, preopening and writedowns represent: (i) certain costs incurred and recoveries realized related to the activities associated with various acquisition opportunities, dispositions and other business development activities in the ordinary course of business; (ii) certain costs of start-up activities that are expensed as incurred and do not qualify as capital costs; and (iii) asset write-downs.

Share-Based Compensation
Share-based compensation expense is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense, net of estimated forfeitures, over the employee's requisite service period. The requisite service period can be impacted by the provisions of the Company’s stock compensation programs that provide for automatic vesting acceleration upon retirement (including as a result of death or disability) for those long-service participants achieving defined age and years of service criteria. These acceleration provisions do not apply to stock grants and awards issued within six months of the employee’s retirement. Compensation costs related to stock option awards are calculated based on the fair value of each major option grant on the date of the grant using the Black-Scholes option pricing model, which requires the following assumptions: expected stock price volatility, risk-free interest rates, expected option lives and dividend yields. We formed our assumptions using historical experience and observable market conditions.

The Company did not issue any stock option grants in 2017. The following table discloses the weighted-average assumptions used in estimating the fair value of our significant stock option grants and awards in prior years:

	Year Ended December 31,	
	2016	2015
Expected stock price volatility	46.62 %	49.06 %
Risk-free interest rate	1.39 %	1.59 %
Expected option life (in years)	5.4	5.3
Estimated fair value per share	$7.67	$9.06

Net Income per Share
Basic net income per share is computed by dividing net income applicable to Boyd Gaming Corporation stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects the additional dilution for all potentially-dilutive securities, such as stock options.

Concentration of Credit Risk
Financial instruments that subject us to credit risk consist of cash equivalents and accounts receivable.

Our policy is to limit the amount of credit exposure to any one financial institution, and place investments with financial institutions evaluated as being creditworthy, or in short-term money market and tax-free bond funds which are exposed to minimal interest rate and credit risk. We have bank deposits that may at times exceed federally-insured limits.

Concentration of credit risk, with respect to gaming receivables, is limited through our credit evaluation process. We issue markers to approved gaming customers only following credit checks and investigations of creditworthiness.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Change in Accounting Principle

In first quarter 2017, the Company adopted Accounting Standards Update 2016-09, Compensation - Stock Compensation ("Update 2016-09") which simplified several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Update 2016-09 requires excess tax benefits and deficiencies to be recorded in income tax expense instead of equity. The cumulative effect of this change in accounting principle is to record the benefit of previously unrecognized excess tax deductions as an increase in retained earnings of $15.8 million on the consolidated statement of changes in stockholders' equity for the year ended December 31, 2017. Additionally, for the year ended December 31, 2017, we recorded an excess tax benefit in our tax expense of approximately $1.5 million. We anticipate recording excess tax benefits as a component of tax expense will cause volatility in our future effective tax rate.

Recently Issued Accounting Pronouncements

Accounting Standards Update 2017-09, Compensation-Stock Compensation ("Update 2017-09")

In May 2017, the Financial Accounting Standards Board ("FASB") issued Update 2017-09, which amends the scope of modification accounting for share-based payment arrangements. An entity should account for the effects of a modification unless the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The standard is effective for the financial statements issued for annual periods and interim periods within those annual periods, beginning after December 15, 2017, and early adoption is permitted. The Company adopted Update 2017-09 during second quarter 2017. The early adoption did not have a material impact on our consolidated financial statements.

Accounting Standards Update 2017-04, Intangibles-Goodwill and Other ("Update 2017-04")

In January 2017, the FASB issued Update 2017-04, which addresses goodwill impairment testing. Instead of determining goodwill impairment by calculating the implied fair value of goodwill, an entity should perform goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The standard is effective for financial statements issued for annual periods and interim periods within those annual periods, beginning after December 15, 2019, and early adoption is permitted. The Company adopted Update 2017-04 effective January 1, 2017. The early adoption did not have an impact on our consolidated financial statements.

Accounting Standards Update 2016-18, Statement of Cash Flows ("Update 2016-18")

In November 2016, the FASB issued Update 2016-18, which amends Accounting Standards Codification ("ASC") 230 to add or clarify the guidance on the classification and presentation of restricted cash in the statement of cash flows. The standard is effective for financial statements issued for annual periods and interim periods within those annual periods beginning after December 15, 2017, and early adoption is permitted. The Company is evaluating the impact of the adoption of Update 2016-18 to the consolidated financial statements.

Accounting Standards Update 2016-17, Consolidation ("Update 2016-17")

In October 2016, the FASB issued Update 2016-17, which amends the guidance on related parties that are under common control.

The ASU provides guidance on a single decision maker does not consider indirect interest held through related parties as equivalent to direct interests in determining whether it meets the economics criterion to be a primary beneficiary. The standard is effective for financial statements issued for annual periods and interim periods within those annual periods beginning after December 15, 2017, and early adoption is permitted. The Company determined that the impact of the new standard on its consolidated financial statements will not be material.

Accounting Standards Update 2016-16, Income Taxes ("Update 2016-16")
In October 2016, the FASB issued Update 2016-16, which addresses the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted. The Company is evaluating the impact of the new standard on its consolidated financial statements. The Company determined that the impact of the new standard on its consolidated financial statements will not be material.

Accounting Standards Update 2016-15, Statement of Cash Flows ("Update 2016-15")
In August 2016, the FASB issued Update 2016-15, which amends the guidance on the classification of certain cash receipts and payments in the statement of cash flows. The Accounting Standards Update ("ASU") is intended to reduce the lack of consistent principles on certain classifications such as debt prepayment, debt extinguishment costs, distributions, insurance claims and beneficial interest in securitization transactions. The standard is effective for financial statements issued for annual periods and interim periods within those annual periods beginning after December 15, 2017, and early adoption is permitted. The Company is evaluating the impact of the adoption of Update 2016-15 to the consolidated financial statements.

Accounting Standards Update 2016-13, Financial Instruments-Credit Losses ("Update 2016-13")
In June 2016, the FASB issued Update 2016-13, which amends the guidance on the impairment of financial instruments. Update 2016-13 adds to GAAP an impairment model (known as the current expected credit loss ("CECL") model) that is based on expected losses rather than incurred losses. The standard is effective for financial statements issued for annual periods and interim periods within those annual periods beginning after December 15, 2019, and early adoption is permitted. The Company is evaluating the impact of the adoption of Update 2016-13 to the consolidated financial statements.

Accounting Standards Update 2016-02, Leases ("Update 2016-02")
In February 2016, the FASB issued Update 2016-02 which requires the recognition of lease assets and lease liabilities on the balance sheet and the disclosure of key information about leasing arrangements. The standard is effective for financial statements issued for annual periods and interim periods within those annual periods beginning after December 15, 2018, and early adoption is permitted. The Company is evaluating the impact of the adoption of Update 2016-02 to the consolidated financial statements.

Accounting Standards Update 2014-09, Revenue from Contracts with Customers ("Update 2014-09"); Accounting Standards Update 2015-14, Revenue from Contracts with Customers - Deferral of the Effective Date ("Update 2015-14"); Accounting Standards Update 2016-08, Revenue from Contracts with Customers - Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ("Update 2016-08"); Accounting Standards Update 2016-10, Revenue from Contracts with Customers - Identifying Performance Obligations and Licensing ("Update 2016-10"); Accounting Standards Update 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815) - Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting ("Update 2016-11"); and Accounting Standards Update 2016-12, Revenue from Contracts with Customers - Narrow-Scope Improvements and Practical Expedients ("Update 2016-12"); (collectively, the “Revenue Standard”)
The Revenue Standard prescribes a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The Revenue Standard is effective for our Company on January 1, 2018, and must be adopted by applying either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach with the cumulative effect of initially applying the guidance recognized at the date of initial application. We are adopting the Revenue Standard by following the full retrospective approach. The accompanying financial statements and related disclosures do not reflect the effects of the Revenue Standard. We are finalizing our assessment of the effects of the Revenue Standard on our consolidated financial statements, and we will begin reporting under the new guidance effective with our first quarter 2018 financial report.

As a result of the Revenue Standard, our historical income statement presentation, which reflects revenues gross for goods and services provided to our customers as an inducement to play with us with an offsetting reduction for promotional allowances to derive net revenues, is no longer allowed. Under the new guidance, revenues are allocated among our departmental classifications based on the relative standalone selling prices of the goods and services provided to the customer. While the amount of net revenues is not changed, this methodology results in a reduction of our reported departmental revenues by an aggregate amount equivalent to our reported promotional allowance revenues. The majority of this adjustment is applied to our gaming revenues.

Historically, and in accordance with prior guidance, we reported the expense for amounts paid to operators of wide area progressive games as contra-revenues. Under the Revenue Standard, these payments will be reported as an operating expense. The impact of this classification change will be to increase our gaming revenues and gaming expenses by equal amounts.

The accounting for our frequent player programs is also impacted. Historically, we have valued the points earned under these programs based on the estimated cost of redemption. Under the new guidance, we will account for the point programs under a deferred revenue model. The impact of this change in accounting is not expected to be material to any annual accounting period.

A variety of proposed or otherwise potential accounting standards are currently being studied by standard-setting organizations and certain regulatory agencies. Because of the tentative and preliminary nature of such proposed standards, we have not yet determined the effect, if any, that the implementation of such proposed standards would have on our consolidated financial statements.

NOTE 2. ACQUISITIONS AND DIVESTITURES

Cannery Casino Hotel and Nevada Palace, LLC

On December 20, 2016 (the "Acquisition Date"), Boyd Gaming completed the acquisitions of Cannery, the owner and operator of Cannery Casino Hotel, and Nevada Palace, LLC, the owner and operator of Eastside Cannery Casino and Hotel, pursuant to a Membership Interest Purchase Agreement (the “Purchase Agreement”) dated as of April 25, 2016, as amended on October 28, 2016, by and among Boyd, Cannery Casino Resorts, LLC (“Seller”), Cannery and Eastside Cannery.

Pursuant to the terms of the Purchase Agreement, Boyd acquired from Seller all of the issued and outstanding membership interests of Cannery and Eastside Cannery (the “Acquisitions”). With the closing of the Acquisitions, each of Cannery and Eastside Cannery became wholly owned subsidiaries of Boyd. Accordingly, the assets and liabilities of Cannery and Eastside Cannery are included in our consolidated balance sheets as of December 31, 2017 and 2016 and the results of their operations and cash flows in our consolidated statements of operations and cash flows, respectively, for the year ended December 31, 2017 and the period from December 20, 2016 through December 31, 2016. The Cannery and Eastside Cannery are modern casinos and hotels in the Las Vegas Valley that offer premium accommodations, gaming, dining, entertainment and retail, and are aggregated into our Las Vegas Locals segment (See Note 1, Summary of Significant Accounting Policies.) The net purchase price was $228.2 million.

The fair value of the consideration transferred to the Seller on the Acquisition Date included the purchase price of the net assets transferred. The total gross consideration was $238.6 million. In addition, the Purchase Agreement provided for a working capital adjustment to the purchase consideration. This adjustment was calculated during second quarter 2017 and paid during the third quarter, resulting in an additional $1.2 million being paid to Seller.

Acquisition Method of Accounting

The Company followed the acquisition method of accounting according to the guidance of FASB Accounting Standards Codification Topic 805 ("ASC 805"). For purposes of these financial statements, we have allocated the purchase price to the assets acquired and the liabilities assumed based on their fair values, as determined by management based on its judgment with assistance from third-party appraisals. The excess of the purchase price over the fair value of the assets acquired and liabilities assumed has been recorded as goodwill. The purchase price allocation below represents the opening balance sheet on December 20, 2016, which was initially reported in our Form 10-K for the year ended December 31, 2016. During the measurement period, which concluded on September 30, 2017, opening balance sheet adjustments were made to finalize the preliminary fair value estimates, resulting in a $62.5 million reduction in acquired assets, primarily related to a $56.7 million reduction in property and equipment, and a $5.0 million reduction in assumed liabilities with a corresponding increase to goodwill of $58.7 million. The property and equipment adjustment resulted in a depreciation expense reduction of $2.5 million for the year ended December 31, 2017. The measurement period adjustment and the related tax impact were immaterial to our consolidated financial statements.

BOYD GAMING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015

The following table summarizes the components and allocation of the purchase price, including the measurement period adjustments:

(In thousands)	Preliminary Purchase Price Allocation	Adjustments	Final Purchase Price Allocation
Current assets	$ 29,929	$ (8,345)	$ 21,584
Property and equipment	181,757	(56,675)	125,082
Other long-term assets	—	3,419	3,419
Intangible and other assets	16,330	(880)	15,450
Total acquired assets	228,016	(62,481)	165,535
Current liabilities	15,850	(4,984)	10,866
Total liabilities assumed	15,850	(4,984)	10,866
Net identifiable assets acquired	212,166	(57,497)	154,669
Goodwill	26,401	58,651	85,052
Net assets acquired	$ 238,567	$ 1,154	$ 239,721

The following table summarizes the values assigned to acquired property and equipment and estimated useful lives:

(In thousands)	Useful Lives	As Recorded
Land		$ 7,870
Buildings and improvements	10 - 40 years	107,268
Furniture and equipment	3 - 7 years	9,820
Construction in progress		124
Property and equipment acquired		$ 125,082

The goodwill was assigned to the Las Vegas Locals reportable segment. All of the goodwill is expected to be deductible for income tax purposes.

The Company recognized $1.1 million and $10.5 million of acquisition related costs that were expensed for the year ended December 31, 2017 and 2016, respectively. These costs are included in the consolidated statements of operations in the line item entitled "Project development, preopening and writedowns".

Aliante Casino + Hotel + Spa
On September 27, 2016, Boyd Gaming completed the acquisition of ALST Casino Holdco LLC, the holding company of Aliante Casino + Hotel + Spa ("Aliante"). Pursuant to the Merger Agreement, Merger Sub merged with and into ALST (the "Merger"), with ALST surviving the Merger. ALST and Aliante are now wholly owned subsidiaries of Boyd Gaming. Accordingly, the acquired assets and liabilities of Aliante are included in our consolidated balance sheets as of December 31, 2017 and 2016 and the results of its operations and cash flows in our consolidated statements of operations and cash flows, respectively, for the year ended December 31, 2017 and the period from September 27, 2016 through December 31, 2016. Aliante is an upscale, resort-style casino and hotel situated in North Las Vegas offering premium accommodations, gaming, dining, entertainment and retail, and is aggregated into our Las Vegas Locals segment (See Note 1, Summary of Significant Accounting Policies.) The net purchase price was $372.3 million.

The fair value of the consideration transferred on the acquisition date included the purchase price of the net assets transferred. The total gross consideration was $399.1 million.

Acquisition Method of Accounting

The Company followed the acquisition method of accounting per ASC 805 guidance. In accordance with ASC 805, the Company allocated the purchase price to the tangible and intangible assets acquired and liabilities assumed based on their fair values, which were determined primarily by management with assistance from third-party appraisals. The excess of the purchase price over those fair values was recorded as goodwill. The purchase price allocation below represents Aliante's opening balance sheet on September 27, 2016, which was initially reported in our Form 10−K for the year ended December 31, 2016. During the measurement period, which concluded on June 30, 2017, opening balance sheet adjustments were made to finalize the preliminary fair value estimates, resulting in a \$2.6 million reduction in other assets, primarily related to base stock, a \$0.8 million reduction in property and equipment and a \$0.4 million increase in assumed liabilities, with a corresponding net increase to goodwill of \$3.8 million. The measurement period adjustment and the related tax impact were immaterial to our consolidated financial statements.

The following table presents the components and allocation of the purchase price, including the measurement period adjustments:

(In thousands)	Preliminary Purchase Price Allocation	Adjustments	Final Purchase Price Allocation
Current assets	$ 31,886	$ —	$ 31,886
Property and equipment	226,309	(760)	225,549
Intangible and other assets	20,791	(2,643)	18,148
Total acquired assets	278,986	(3,403)	275,583
Current liabilities	5,693	515	6,208
Other liabilities	636	(83)	553
Total liabilities assumed	6,329	432	6,761
Net identifiable assets acquired	272,657	(3,835)	268,822
Goodwill	126,489	3,835	130,324
Net assets acquired	$ 399,146	$ —	$ 399,146

The following table summarizes the values assigned to acquired property and equipment and estimated useful lives:

(In thousands)	Useful Lives	As Recorded
Land		$ 16,680
Buildings and improvements	10 - 45 years	200,770
Furniture and equipment	3 - 7 years	8,099
Property and equipment acquired		$ 225,549

All of the goodwill was assigned to the Las Vegas Locals reportable segment. All of the goodwill is expected to be deductible for income tax purposes.

The Company recognized \$1.0 million and \$2.2 million of acquisition related costs that were expensed for the year ended December 31, 2017 and 2016, respectively. These costs are included in the consolidated statements of operations in the line item entitled "Project development, preopening and writedowns".

We have not provided the amount of revenue and earnings included in our consolidated financial results from the Aliante or Cannery acquisitions for the period subsequent to their respective acquisitions as such amounts are not material for the twelve months ended December 31, 2016.

Announced Acquisitions

On December 18, 2017, Boyd Gaming announced that it had entered into a definitive agreement to acquire Ameristar Casino Kansas City, LLC ("Ameristar Kansas City"), the owner and operator of Ameristar Casino Hotel Kansas City; Ameristar Casino St. Charles, LLC ("Ameristar St. Charles"), the owner and operator of Ameristar Casino Resort Spa St. Charles; Belterra Resort Indiana LLC ("Belterra"), the owner and operator of Belterra Casino Resort located in Florence, Indiana; and PNK (Ohio) LLC (“Belterra Park”), the owner and operator of Belterra Park, located in Cincinnati, Ohio. Ameristar Kansas City, Ameristar St. Charles, Belterra and Belterra Park are collectively referred to as the "Companies".

Boyd Gaming will acquire the Companies pursuant to a Membership Interest Purchase Agreement (the "Penn National Purchase Agreement"), made and entered into on December 17, 2017 (the "Agreement Date"), by and among Boyd, Boyd TCIV, LLC, a wholly owned subsidiary of Boyd ("Boyd Sub"), Penn National Gaming, Inc. ("Penn"), and, solely following the execution and delivery of a joinder to the Penn National Purchase Agreement, Pinnacle Entertainment, Inc. ("Pinnacle Entertainment") and its wholly owned subsidiary, Pinnacle MLS, LLC (collectively with Pinnacle Entertainment, "Pinnacle"). The Penn National Purchase Agreement provides that, pursuant to the terms and subject to the conditions set forth therein, Boyd will acquire from Pinnacle all of the issued and outstanding membership interests of the Companies as well as certain other assets (and assume certain other liabilities) of Pinnacle related to the Companies (collectively, the "Pending Acquisitions"), such that following the Pending Acquisitions, each of the Companies will be a wholly owned subsidiary of Boyd.

The Pending Acquisitions will occur substantially concurrently with the acquisition of Pinnacle Entertainment by Penn (the "Merger") pursuant to the Merger Agreement (the "Merger Agreement"), dated the Agreement Date, by and among Pinnacle Entertainment, Penn and Franchise Merger Sub, Inc., a wholly owned subsidiary of Penn.

Upon the terms and subject to the conditions of the Purchase Agreement, Boyd will acquire the Companies for total cash consideration of approximately $575.0 million, subject to adjustments based on (a) the adjusted 2017 EBITDA of each Company (as determined subsequent to the Agreement Date), and (b) working capital, cash and indebtedness of the Companies at closing and transaction expenses.

In addition, on the Agreement Date, Boyd entered into a Master Lease Commitment and Rent Allocation Agreement (the "Lease Commitment Agreement") by and among Boyd, Boyd Sub, Penn, Gaming and Leisure Properties, Inc. ("GLPI Parent") and Gold Merger Sub, LLC, a wholly owned subsidiary of GLPI Parent (collectively with GLPI Parent, "GLPI"), pursuant to which, among other things, concurrently with the consummation of the Pending Acquisitions, Boyd will enter into a new Master Lease with GLPI, under which Boyd will lease the real estate, improvements and fixtures owned by GLPI that are associated with the Companies and currently leased to Pinnacle (the "Master Lease"). The Lease Commitment Agreement also sets forth the manner in which rent will be calculated for the purposes of the Master Lease. GLPI's commitment to enter into the Master Lease is subject to certain conditions, including that the conditions to the Merger under the Merger Agreement and the conditions to the Pending Acquisitions under the Penn National Purchase Agreement have been satisfied or waived, and that the sale of Belterra Park's real property to GLPI has been consummated, as contemplated by a purchase agreement between Penn and GLPI (and, upon the execution of a joinder, Belterra Park) entered into on the Agreement Date.

The completion of the Pending Acquisitions is subject to the effectiveness of the Master Lease and the consummation of the Merger, and the receipt of all required regulatory approvals, as well as customary conditions, including, among others, approval by Missouri, Ohio and Indiana gaming authorities and the acceptance or approval by the Federal Trade Commission. In addition, the Penn National Purchase is also contingent upon the successful completion of Penn National's proposed acquisition of Pinnacle Entertainment, Inc. Subject to the satisfaction or waiver of conditions in the Penn National Purchase Agreement, Boyd currently expects the transaction to close in the second half of 2018.

The Penn National Purchase Agreement contains certain termination rights for Boyd Gaming, and the other parties thereto, and could result in a reverse termination fee payment of up to $58.0 million in certain circumstances.

On December 20, 2017, Boyd Gaming announced that it had entered into a definitive agreement to acquire Valley Forge Convention Center Partners, L.P. ("Valley Forge"), the owner and operator of Valley Forge Casino Resort in King of Prussia, Pennsylvania.

Boyd will acquire Valley Forge pursuant to an Agreement and Plan of Merger, made and entered into on December 20, 2017 (the "Valley Forge Merger Agreement"), by and among Boyd, Boyd TCV, LP, a Pennsylvania limited partnership and a wholly owned subsidiary of Boyd ("Boyd TCV"), Valley Forge, and VFCCP SR LLC, a Pennsylvania limited liability company, solely in its capacity as the representative of Valley Forge’s limited partners. The Valley Forge Merger Agreement provides that, pursuant to the terms and subject to the conditions set forth therein, Boyd TCV will be merged with and into Valley Forge (the "Merger"), following which Valley Forge will be the surviving entity and a wholly owned subsidiary of Boyd.

Upon the terms and subject to the conditions of the Valley Forge Merger Agreement, Boyd will acquire Valley Forge for cash consideration of approximately $280.5 million, subject to adjustment based on working capital, cash and indebtedness of Valley Forge at closing and transaction expenses.

The completion of the Merger is subject to customary conditions, including the receipt of all required regulatory approvals, including, among others, approval by the Pennsylvania Gaming Control Board and the expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Subject to the satisfaction or waiver of conditions in the Valley Forge Merger Agreement, Boyd currently expects the transaction to close in the third quarter of 2018.

Investment in and Divestiture of Borgata

On August 1, 2016, Boyd Gaming completed the sale of its 50% equity interest in Marina District Development Holding Company, LLC ("MDDHC"), the parent company of Borgata, to MGM, pursuant to an Equity Purchase Agreement ("Purchase Agreement") entered into on May 31, 2016, as amended on July 19, 2016, by and among Boyd, Boyd Atlantic City, Inc., a wholly-owned subsidiary of Boyd ("Seller"), and MGM. Pursuant to the Purchase Agreement, MGM acquired from Boyd Gaming 49% of its 50% membership interest in MDDHC and, immediately thereafter, MDDHC redeemed Boyd Gaming’s remaining 1% membership interest in MDDHC (collectively, the "Transaction"). Following the Transaction, MDDHC became a wholly owned subsidiary of MGM.

In consideration for the Transaction, MGM paid Boyd Gaming $900 million. The initial net cash proceeds were approximately $589 million, net of certain expenses and adjustments on the closing date, including outstanding indebtedness, cash and working capital. The after-tax gain on the sale of Borgata was $181.7 million and is included in discontinued operations in the year ended December 31, 2016. The initial proceeds did not include our 50% share of any future property tax settlement benefits, from the time period during which we held a 50% ownership in MDDHC, to which Boyd Gaming retained the right to receive upon payment. During 2016, we recognized $9.1 million in income, which is included in discontinued operations, for the cash we received for our share of property tax benefits realized by Borgata subsequent to the closing of the sale. On February 15, 2017, Borgata announced that it had entered into a settlement agreement under which it would receive payments totaling $72 million to resolve the property tax issues. Borgata received full payment, and we received our share of the proceeds, in June 2017. For the year ended December 31, 2017, we recognized $36.2 million in income for the cash we received for our share of property tax benefits realized by Borgata after the closing of the sale. These proceeds, net of tax of $14.8 million for the year ended December 31, 2017, are included in discontinued operations in the consolidated financial statements.

We accounted for our investment in Borgata applying the equity method, through the date of the sale, and, as a result of the sale, we reported the results as discontinued operations for all periods presented in these consolidated financial statements.

The table below summarizes the results of operations information for periods prior to the date of divestiture:

(In thousands)	Seven Months Ended July 31, 2016	Twelve Months Ended December 31, 2015
Net revenues	$485,510	$804,166
Operating expenses	366,812	657,324
Operating income	118,698	146,842
Interest expense	26,378	59,681
Loss on early extinguishments of debt	1,628	18,895
State income tax expense (benefit)	8,274	(3,731)
Net income	$82,418	$71,997

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NOTE 3. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following:

	December 31,	
(In thousands)	2017	2016
Land	$294,533	$251,316
Buildings and improvements	2,935,539	2,915,664
Furniture and equipment	1,311,704	1,243,724
Riverboats and barges	238,926	239,264
Construction in progress	59,538	86,226
Other	—	726
Total property and equipment	4,840,240	4,736,920
Less accumulated depreciation	2,300,454	2,131,751
Property and equipment, net	$2,539,786	$2,605,169

Construction in progress primarily relates to costs capitalized in conjunction with major improvements that have not yet been placed into service, and accordingly, such costs are not currently being depreciated. Other property and equipment relates to the estimated net realizable value of construction materials inventory that was not disposed of with the sale of the Echelon project in 2013. Such assets are not in service and are not currently being depreciated.

Depreciation expense for the years ended December 31, 2017, 2016 and 2015 was $199.3 million, $179.6 million and $179.9 million, respectively.

NOTE 4. INTANGIBLE ASSETS

Intangible assets consist of the following:

	December 31, 2017				
(In thousands)	Weighted Average Life Remaining	Gross Carrying Value	Cumulative Amortization	Cumulative Impairment Losses	Intangible Assets, Net
Amortizing intangibles:					
Customer relationships	5.2 years	$9,400	$ (3,470)	$—	$5,930
Favorable lease rates	38.0 years	11,730	(3,075)	—	8,655
Development agreement	—	21,373	—	—	21,373
		42,503	(6,545)	—	35,958
Indefinite lived intangible assets:					
Trademarks	Indefinite	151,887	—	(4,300)	147,587
Gaming license rights	Indefinite	873,335	(33,960)	(179,974)	659,401
		1,025,222	(33,960)	(184,274)	806,988
Balance, December 31, 2017		$1,067,725	$ (40,505)	$(184,274)	$842,946

BOYD GAMING CORPORATION AND SUBSIDIARIES
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as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015

	December 31, 2016				
(In thousands)	Weighted Average Life Remaining	Gross Carrying Value	Cumulative Amortization	Cumulative Impairment Losses	Intangible Assets, Net
Amortizing intangibles:					
Customer relationships	1.1 years	$144,780	$(125,318)	$—	$19,462
Favorable lease rates	31.4 years	45,370	(13,039)	—	32,331
Development agreement	—	21,373	—	—	21,373
		211,523	(138,357)	—	73,166
Indefinite lived intangible assets:					
Trademarks	Indefinite	153,687	—	(4,300)	149,387
Gaming license rights	Indefinite	873,335	(33,960)	(179,974)	659,401
		1,027,022	(33,960)	(184,274)	808,788
Balance, December 31, 2016		$1,238,545	$(172,317)	$(184,274)	$881,954

Amortizing Intangible Assets
Customer Relationships
Customer relationships represent the value of repeat business associated with our customer loyalty programs. The value of customer relationships is determined using a multi-period excess earnings method, which is a specific discounted cash flow model. The value is determined at an amount equal to the present value of the incremental after-tax cash flows attributable only to these customers, discounted to present value at a risk-adjusted rate of return. With respect to the application of this methodology, we used the following significant projections and assumptions: revenue of our rated customers, based on expected level of play; promotional allowances provided to these existing customers; attrition rate related to these customers; operating expenses; general and administrative expenses; trademark expense; discount rate; and the present value of tax benefit.

Favorable Lease Rates
Favorable lease rates represent the rental rates for assumed land leases that are favorable to comparable market rates. The fair value is determined on a technique whereby the difference between the lease rate and the then current market rate for the remaining contractual term is discounted to present value. The assumptions underlying this computation include the actual lease rates, the expected remaining lease term, including renewal options, based on the existing lease; current rates of rent for leases on comparable properties with similar terms obtained from market data and analysis; and an assumed discount rate. The estimates underlying the result covered a term of 41 to 52 years.

Development Agreement
Development agreement is an acquired contract with a Native American tribe (the "Tribe") under which the Company has the right to assist the Tribe in the development and management of a gaming facility on the Tribe's land. This asset although amortizable, is not amortized until development is completed. We are in the process of finalizing project design and construction planning. In the interim, this asset is subject to periodic impairment reviews.

Indefinite Lived Intangible Assets
Trademarks
Trademarks are based on the value of our brands, which reflect the level of service and quality we provide and from which we generate repeat business. Trademarks are valued using the relief from royalty method, which presumes that

without ownership of such trademark, we would have to make a stream of payments to a brand or franchise owner in return for the right to use their name. By virtue of this asset, we avoid any such payments and record the related intangible value of our ownership of the trade name. We used the following significant projections and assumptions to determine value under the relief from royalty method: revenue from gaming and hotel activities; royalty rate; tax expense; terminal growth rate; discount rate; and the present value of tax benefit.

Gaming License Rights
Gaming license rights represent the value of the license to conduct gaming in certain jurisdictions, which is subject to highly extensive regulatory oversight, and a limitation on the number of licenses available for issuance therein. In the majority of cases, the value of our gaming licenses is determined using a multi-period excess earnings method, which is a specific discounted cash flow model. The value is determined at an amount equal to the present value of the incremental after-tax cash flows attributable only to future gaming revenue, discounted to present value at a risk-adjusted rate of return. With respect to the application of this methodology, we used the following significant projections and assumptions: gaming revenues; gaming operating expenses; general and administrative expenses; tax expense; terminal value; and discount rate. In two instances, we determine the value of our gaming licenses by applying a cost approach. Our primary consideration in the application of this methodology is the initial statutory fee associated with acquiring a gaming license in the jurisdiction.

Activity for the Years Ended December 31, 2017, 2016 and 2015
The following table sets forth the changes in these intangible assets:

(In thousands)	Customer Relationships	Favorable Lease Rates	Development Agreements	Trademarks	Gaming License Rights	Intangible Assets, Net
Balance, January 1, 2015	$ 51,958	$ 34,414	$ 21,373	$ 126,001	$ 700,503	$ 934,249
Additions	—	—	—	—	—	—
Impairments	—	—	—	—	(17,502)	(17,502)
Amortization	(25,652)	(1,041)	—	—	—	(26,693)
Balance, December 31, 2015	26,306	33,373	21,373	126,001	683,001	890,054
Additions	8,480	—	—	24,200	—	32,680
Impairments	—	—	—	(800)	(23,600)	(24,400)
Amortization	(15,324)	(1,042)	—	—	—	(16,366)
Other	—	—	—	(14)	—	(14)
Balance, December 31, 2016	19,462	32,331	21,373	149,387	659,401	881,954
Additions	—	—	—	—	—	—
Purchase price adjustment	920	—	—	(1,800)	—	(880)
Impairments	—	—	—	—	—	—
Amortization	(14,452)	(228)	—	—	—	(14,680)
Other	—	(23,448)	—	—	—	(23,448)
Balance, December 31, 2017	$ 5,930	$ 8,655	$ 21,373	$ 147,587	$ 659,401	$ 842,946

In March 2017, The Orleans Hotel and Casino exercised an option in its lease agreement to terminate the existing lease and purchase the land subject to the lease therefore combining the remaining unamortized favorable lease rate asset into the cost of the land asset.

BOYD GAMING CORPORATION AND SUBSIDIARIES
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Future Amortization
Customer relationships are being amortized on an accelerated basis over an estimated life of five years. Favorable lease rates are being amortized on a straight-line basis over a weighted-average original useful life of 38.0 years. Future amortization is as follows:

(In thousands)	Customer Relationships	Favorable Lease Rates	Total
For the year ending December 31,			
2018	$ 2,291	$ 228	$2,519
2019	1,634	228	1,862
2020	1,043	228	1,271
2021	511	228	739
2022	271	228	499
Thereafter	180	7,515	7,695
Total future amortization	$ 5,930	$ 8,655	$14,585

Trademarks and gaming license rights are not subject to amortization, as we have determined that they have an indefinite useful life; however, these assets are subject to an annual impairment test each year and between annual test dates in certain circumstances.

Impairment Considerations
As a result of our annual impairment testing in the fourth quarter of 2017, there were no impairment charges recognized.

During the year ended 2016, we recognized non-cash impairment charges of $23.6 million of gaming licenses and $0.8 million of trademarks in our Midwest and South segment. These amounts are included in impairments of assets in the consolidated statements of operations for the year ended December 31, 2016.

During the year ended 2015, we recognized non-cash impairment charges of $17.5 million of a gaming license in our Midwest and South segment. These amounts are included in impairments of assets in the consolidated statements of operations for the year ended December 31, 2015.

NOTE 5. GOODWILL
Goodwill consists of the following:

(In thousands)	Gross Carrying Value	Cumulative Amortization	Cumulative Impairment Losses	Goodwill, Net
Goodwill, net by Reportable Segment:				
Las Vegas Locals	$593,567	$ —	$(165,479)	$428,088
Downtown Las Vegas	6,997	(6,134)	—	863
Midwest and South	471,735	—	(12,462)	459,273
Balance, December 31, 2017	$1,072,299	$ (6,134)	$(177,941)	$888,224

Changes in Goodwill
During the year ended December 31, 2017 and 2016, we recorded $61.7 million and $153.6 million of goodwill, respectively, in our Las Vegas Locals segment related to our acquisitions of Aliante on September 27, 2016 and

Cannery and Eastside Cannery on December 20, 2016 as the acquisition accounting was finalized in the current year (see Note 2, Acquisitions and Divestitures).

Goodwill decreased approximately $12.5 million during 2016 due to an impairment in the Midwest and South segment.

The following table sets forth the changes in our goodwill, net, during the years ended December 31, 2017, 2016 and 2015.

(In thousands)	Goodwill, Net
Balance, January 1, 2015	$685,310
Additions	—
Impairments	—
Balance, December 31, 2015	685,310
Additions	153,628
Impairments	(12,462)
Balance, December 31, 2016	826,476
Additions	—
Impairments	—
Final purchase price adjustment	61,748
Balance, December 31, 2017	$888,224

NOTE 6. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	December 31,	
(In thousands)	2017	2016
Payroll and related expenses	$70,724	$68,102
Interest	19,858	33,407
Gaming liabilities	55,961	41,942
Player loyalty program liabilities	18,322	19,076
Dividends payable	5,632	—
Other accrued liabilities	78,482	88,555
Total accrued liabilities	$248,979	$251,082

NOTE 7. LONG-TERM DEBT

Long-term debt, net of current maturities and debt issuance costs consists of the following:

	December 31, 2017				
(In thousands)	Interest Rates at Dec. 31, 2017	Outstanding Principal	Unamortized Discount	Unamortized Origination Fees and Costs	Long-Term Debt, Net
Bank credit facility	3.882%	$1,621,054	$ (1,556)	$ (23,795)	$1,595,703
6.875% senior notes due 2023	6.875%	750,000	—	(9,455)	740,545
6.375% senior notes due 2026	6.375%	750,000	—	(10,872)	739,128
Other	5.800%	504	—	—	504
Total long-term debt		3,121,558	(1,556)	(44,122)	3,075,880
Less current maturities		23,981	—	—	23,981
Long-term debt, net		$3,097,577	$ (1,556)	$ (44,122)	$3,051,899

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as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015

	December 31, 2016				
(In thousands)	Interest Rates at Dec. 31, 2016	Outstanding Principal	Unamortized Discount	Unamortized Origination Fees and Costs	Long-Term Debt, Net
Bank credit facility	3.440%	$1,782,538	$ (1,888)	$ (28,503)	$1,752,147
6.875% senior notes due 2023	6.875%	750,000	—	(11,209)	738,791
6.375% senior notes due 2026	6.375%	750,000	—	(12,074)	737,926
Other	5.800%	591	—	—	591
Total long-term debt		3,283,129	(1,888)	(51,786)	3,229,455
Less current maturities		30,336	—	—	30,336
Long-term debt, net		$3,252,793	$ (1,888)	$ (51,786)	$3,199,119

Boyd Gaming Corporation Debt
Bank Credit Facility
Credit Agreement
On March 29, 2017, the Company, as borrower, entered into Amendment No. 2 and Refinancing Amendment (the "Refinancing Amendment") with the lenders party thereto, and Bank of America, N.A. ("Bank of America"), as administrative agent. The Refinancing Amendment modifies the Third Amended and Restated Credit Agreement (as amended prior to the execution of the Refinancing Amendment, the "Existing Credit Agreement"), dated as of August 14, 2013, among the Company, certain financial institutions, and Bank of America, as administrative agent. The Refinancing Amendment modified the Existing Credit Agreement and is referred to as the "Amended Credit Agreement" (together referred to as the "Credit Facility").

The Amended Credit Agreement provides for (i) commitments to make Term B Loans in an amount equal to $1,264.5 million (the "Refinancing Term B Loans"), with the proceeds used to refinance in full the Company's Term B-1 Loans and Term B-2 Loans outstanding under the Existing Credit Agreement and (ii) certain other amendments to the Existing Credit Agreement. The revolving credit facility (the "Revolving Credit Facility") of $775.0 million and the senior secured term A loan (the "Term A Loan") of $225.0 million were not modified in the Refinancing Amendment.

The Refinancing Term B Loans mature on September 15, 2023 (or earlier upon occurrence or non-occurrence of certain events). The Revolving Credit Facility and the Term A Loan mature on September 15, 2021 (or earlier upon occurrence or non-occurrence of certain events).

The Credit Facility includes an accordion feature which permits an increase in the Revolving Credit Facility and the issuance and increase of senior secured term loans in an amount up to (i) $550.0 million, plus (ii) certain voluntary permanent reductions of the Revolving Credit Facility and certain voluntary prepayments of the senior secured term loans, plus (iii) certain reductions in the outstanding principal amounts under the term loans or the Revolving Credit Facility, plus (iv) any additional amount if, after giving effect thereto, the First Lien Leverage Ratio (as defined in the Credit Agreement) would not exceed 4.25 to 1.00 on a pro forma basis, less (v) any Incremental Equivalent Debt (as defined in the Credit Agreement), in each case, subject to the satisfaction of certain conditions.

Amounts Outstanding
The outstanding principal amounts under the Credit Facility are comprised of the following:

December 31,

(In thousands)	2017	2016
Revolving Credit Facility	$170,000	$245,000
Term A Loan	210,938	222,188
Refinancing Term B Loans	1,170,016	—
Term B-1 Loan	—	271,750
Term B-2 Loan	—	997,500
Swing Loan	70,100	46,100
Total outstanding principal amounts	$1,621,054	$1,782,538

At December 31, 2017 approximately $1.6 billion was outstanding under the Credit Facility and $12.9 million was allocated to support various letters of credit, leaving remaining contractual availability of $522.0 million.

Interest and Fees

The interest rate on the outstanding balance from time to time of the Revolving Credit Facility and the Term A Loan is based upon, at the Company's option, either: (i) the Eurodollar rate or (ii) the base rate, in each case, plus an applicable margin. Such applicable margin is a percentage per annum determined in accordance with a specified pricing grid based on the total leverage ratio and ranges from 1.75% to 2.75% (if using the Eurodollar rate) and from 0.75% to 1.75% (if using the base rate). A fee of a percentage per annum (which ranges from 0.25% to 0.50% determined in accordance with a specified pricing grid based on the total leverage ratio) will be payable on the unused portions of the Revolving Credit Facility.

The interest rate on the outstanding balance of the Refinancing Term B Loans under the Amended Credit Agreement is based upon, at the Company's option, either: (i) the Eurodollar rate or (ii) the base rate, in each case, plus an applicable margin. Such applicable margin is a percentage per annum determined in accordance with the Company's secured leverage ratio and ranges from 2.25% to 2.50% (if using the Eurodollar rate) and from 1.25% to 1.50% (if using the base rate).

The "base rate" under the Credit Agreement remains the highest of (x) Bank of America's publicly-announced prime rate, (y) the federal funds rate plus 0.50%, or (z) the Eurodollar rate for a one-month period plus 1.00%.

Optional and Mandatory Prepayments

Pursuant to the terms of the Credit Facility (i) the loans under the Term A Loan amortize in an annual amount equal to 5.00% of the original principal amount thereof, commencing December 31, 2016, payable on a quarterly basis, (ii) the loans under the Refinancing Term B Loans amortize in an annual amount equal to 1.00% of the original principal amount thereof, commencing June 30, 2017, payable on a quarterly basis, and (iii) beginning with the fiscal year ending December 31, 2016, the Company is required to use a portion of its annual Excess Cash Flow, as defined in the Credit Agreement, to prepay loans outstanding under the Credit Facility.

Amounts outstanding under the Refinancing Amendment may be prepaid without premium or penalty, and the commitments may be terminated without penalty, subject to certain exceptions.

Subject to certain exceptions, the Company may be required to repay the amounts outstanding under the Credit Facility in connection with certain asset sales and issuances of certain additional secured indebtedness.

Guarantees and Collateral

The Company's obligations under the Credit Facility, subject to certain exceptions, are guaranteed by certain of the Company's subsidiaries and are secured by the capital stock of certain subsidiaries. In addition, subject to certain exceptions, the Company and each of the guarantors will grant the administrative agent first priority liens and security interests on substantially all of their real and personal property (other than gaming licenses and subject to certain other exceptions) as additional security for the performance of the secured obligations under the Credit Facility.

Financial and Other Covenants

The Credit Facility contains certain financial and other covenants, including, without limitation, various covenants: (i) requiring the maintenance of a minimum consolidated interest coverage ratio 1.75 to 1.00; (ii) establishing a maximum permitted consolidated total leverage ratio (discussed below); (iii) establishing a maximum permitted secured leverage ratio (discussed below); (iv) imposing limitations on the incurrence of indebtedness; (v) imposing limitations on transfers, sales and other dispositions; and (vi) imposing restrictions on investments, dividends and certain other payments.

The maximum permitted consolidated Total Leverage Ratio is calculated as Consolidated Funded Indebtedness to twelve-month trailing Consolidated EBITDA, as defined by the Agreement. The following table provides our maximum Total Leverage Ratio during the remaining term of the Credit Facility:

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For the Trailing Four Quarters Ending	Maximum Total Leverage Ratio
March 31, 2017 through December 31, 2017	7.00 to 1.00
March 31, 2018 through December 31, 2018	6.25 to 1.00
March 31, 2019 through December 31, 2019	6.00 to 1.00
March 31, 2020 through December 31, 2020	5.75 to 1.00
March 31, 2021 and thereafter	5.50 to 1.00

The maximum permitted Secured Leverage Ratio is calculated as Secured Indebtedness to twelve-month trailing Consolidated EBITDA, as defined by the Agreement. The following table provides our maximum Secured Leverage Ratio during the remaining term of the Credit Facility:

For the Trailing Four Quarters Ending	Maximum Secured Leverage Ratio
September 30, 2016 through December 31, 2017	4.50 to 1.00
March 31, 2018 through December 31, 2018	4.00 to 1.00
March 31, 2019 through December 31, 2019	3.75 to 1.00
March 31, 2020 and thereafter	3.50 to 1.00

Current Maturities of Our Indebtedness
We classified certain non-extending balances under our Credit Facility as a current maturity, as such amounts come due within the next twelve months.

Senior Notes
6.875% Senior Notes due May 2023
On May 21, 2015, we issued $750 million aggregate principal amount of 6.875% senior notes due May 2023 (the "6.875% Notes"). The 6.875% Notes require semi-annual interest payments on May 15 and November 15 of each year, commencing on November 15, 2015. The 6.875% Notes will mature on May 15, 2023 and are fully and unconditionally guaranteed, on a joint and several basis, by certain of our current and future domestic restricted subsidiaries, all of which are 100% owned by us.

The 6.875% Notes contain certain restrictive covenants that, subject to exceptions and qualifications, among other things, limit our ability and the ability of our restricted subsidiaries (as defined in the base and supplemental indentures governing the 6.875% Notes, together, the "6.875% Indenture") to incur additional indebtedness or liens, pay dividends or make distributions or repurchase our capital stock, make certain investments, and sell or merge with other companies. In addition, upon the occurrence of a change of control (as defined in the 6.875% Indenture), we will be required, unless certain conditions are met, to offer to repurchase the 6.875% Notes at a price equal to 101% of the principal amount of the 6.875% Notes, plus accrued and unpaid interest and Additional Interest (as defined in the 6.875% Indenture), if any, to, but not including, the date of purchase. If we sell assets or experience an event of loss, we will be required under certain circumstances to offer to purchase the 6.875% Notes.

At any time prior to May 15, 2018, we may redeem the 6.875% Notes, in whole or in part, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest and Additional Interest, if any, up to, but excluding, the applicable redemption date, plus a make whole premium. After May 15, 2018, we may redeem all or a portion of the 6.875% Notes at redemption prices (expressed as percentages of the principal amount) ranging from 105.156% in 2018 to 100% in 2021 and thereafter, plus accrued and unpaid interest and Additional Interest.

In conjunction with the issuance of the 6.875% Notes, we incurred approximately $14.0 million in debt financing costs that have been deferred and are being amortized over the term of the 6.875% Notes using the effective interest method.

6.375% Senior Notes due April 2026
On March 28, 2016, we issued $750 million aggregate principal amount of 6.375% senior notes due April 2026 (the "6.375% Notes"). The 6.375% Notes require semi-annual interest payments on April 1 and October 1 of each year, commencing on October 1, 2016. The 6.375% Notes will mature on April 1, 2026 and are fully and unconditionally guaranteed, on a joint and several basis, by certain of our current and future domestic restricted subsidiaries, all of which are 100% owned by us. Net proceeds from the 6.375% Notes were used to pay down the outstanding amount under the Revolving Credit Facility and the balance was deposited in money market funds and classified as cash equivalents on the consolidated balance sheets.

In conjunction with the issuance of the 6.375% Notes, we incurred approximately $13.0 million in debt financing costs that have been deferred and are being amortized over the term of the 6.375% Notes using the effective interest method.

The 6.375% Notes contain certain restrictive covenants that, subject to exceptions and qualifications, among other things, limit our ability and the ability of our restricted subsidiaries (as defined in the base and supplemental indentures governing the 6.375% Notes, together, the "6.375% Indenture") to incur additional indebtedness or liens, pay dividends or make distributions or repurchase our capital stock, make certain investments, and sell or merge with other companies. In addition, upon the occurrence of a change of control (as defined in the 6.375% Indenture), we will be required, unless certain conditions are met, to offer to repurchase the 6.375% Notes at a price equal to 101% of the principal amount of the 6.375% Notes, plus accrued and unpaid interest and Additional Interest (as defined in the 6.375% Indenture), if any, to, but not including, the date of purchase. If we sell assets or experience an event of loss, we will be required under certain circumstances to offer to purchase the 6.375% Notes.

At any time prior to April 1, 2021, we may redeem the 6.375% Notes, in whole or in part, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest and Additional Interest, if any, up to, but excluding, the applicable redemption date, plus a make whole premium. After April 1, 2021, we may redeem all or a portion of the 6.375% Notes at redemption prices (expressed as percentages of the principal amount) ranging from 103.188% in 2021 to 100% in 2024 and thereafter, plus accrued and unpaid interest and Additional Interest.

In connection with the private placement of the 6.375% Notes, we entered into a registration rights agreement with the initial purchasers in which we agreed to file a registration statement with the SEC to permit the holders to exchange or resell the 6.375% Notes. We filed the required registration statement and commenced the exchange offer during December 2016. The exchange offer was completed on February 10, 2017 and our obligations under the registration rights agreement have been fulfilled.

9.00% Senior Notes due July 2020
On September 6, 2016 we redeemed all of our 9.00% senior notes due July 2020 (the "9.00% Notes") at a redemption price of 104.50% plus accrued and unpaid interest to the redemption date. The redemption was funded using cash on hand. As a result of this redemption, the 9.00% Notes have been fully extinguished.

Peninsula Gaming Debt
Peninsula Credit Facility
On September 2, 2016, Peninsula repaid all of the outstanding amounts, including all principal and accrued interest amounts, under the Peninsula senior secured credit facility (the "Peninsula Credit Facility") pursuant to the Peninsula Credit Agreement. In connection with the repayment in full of the Peninsula Credit Facility (the "Repayment"), the Peninsula Credit Agreement was terminated.

8.375% Senior Notes due February 2018

On September 2, 2016 we redeemed all of our 8.375% senior notes due February 2018 (the "8.375% Notes") at a redemption price of 100.0% plus accrued and unpaid interest to the redemption date. The redemption was funded using cash on hand. As a result of this redemption, the 8.375% Notes have been fully extinguished.

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Loss on Early Extinguishments and Modifications of Debt

The components of the loss on early extinguishments and modifications of debt, are as follows:

	Year Ended December 31,		
(In thousands)	2017	2016	2015
Boyd Gaming Credit Facility deferred finance charges	$1,086	$6,629	$1,978
Refinancing Amendment	496	—	—
9.00% Senior Notes premium and consent fees	—	15,750	—
9.00% Senior Notes deferred finance charges	—	5,976	—
8.375% Senior Notes deferred finance charges	—	4,497	—
9.125% Senior Notes premium and consent fees	—	—	23,962
9.125% Senior Notes deferred finance charges	—	—	4,888
HoldCo Note	—	—	7,819
Peninsula Credit Facility deferred finance charges	—	9,512	2,086
Total loss on early extinguishments and modifications of debt	$1,582	$42,364	$40,733

Covenant Compliance

As of December 31, 2017, we believe that we were in compliance with the financial and other covenants of our debt instruments.

The indentures governing the notes issued by the Company contain provisions that allow for the incurrence of additional indebtedness, if after giving effect to such incurrence, the coverage ratio (as defined in the respective indentures, essentially a ratio of the Company's consolidated EBITDA to fixed charges, including interest) for the Company's trailing four quarter period on a pro forma basis would be at least 2.0 to 1.0. Should this provision prohibit the incurrence of additional debt, the Company may still borrow under its existing credit facility. At December 31, 2017, the available borrowing capacity under our Credit Facility was $522.0 million.

Scheduled Maturities of Long-Term Debt

The scheduled maturities of long-term debt, as discussed above, are as follows:

(In thousands)	Total
For the year ending December 31,	
2018	$23,981
2019	23,991
2020	23,997
2021	430,040
2022	12,758
Thereafter	2,606,791
Total outstanding principal of long-term debt	$3,121,558

NOTE 8. INCOME TAXES

Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are provided to record the effects of temporary differences between the tax basis of an asset or liability and its amount as reported in our consolidated balance sheets. These temporary differences result in taxable or deductible amounts in future years.

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The components comprising our deferred tax assets and liabilities are as follows:

	December 31,	
(In thousands)	2017	2016
Deferred tax assets		
Federal net operating loss carryforwards	$110,350	$201,978
State net operating loss carryforwards	45,096	38,715
Share-based compensation	14,226	26,344
Other	33,001	61,289
Gross deferred tax assets	202,673	328,326
Valuation allowance	(28,821)	(28,402)
Deferred tax assets, net of valuation allowance	173,852	299,924
Deferred tax liabilities		
Difference between book and tax basis of property and intangible assets	219,090	337,654
State tax liability	34,035	31,443
Other	9,802	14,807
Gross deferred tax liabilities	262,927	383,904
Deferred tax liabilities, net	$89,075	$83,980

At December 31, 2017, we have unused federal general business tax credits of approximately $8.0 million which may be carried forward or used until expiration beginning in 2036 and alternative minimum tax credits of $10.4 million which may be used or refunded through 2022. We have a federal income tax net operating loss of approximately $525.5 million, which may be carried forward or used until expiration beginning in 2031. We also have state income tax net operating loss carryforwards of approximately $732.4 million, which may be used to reduce future state income taxes. The state net operating loss carryforwards will expire in various years ranging from 2018 to 2036, if not fully utilized.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). As part of our analysis of the impact of the Tax Act, we have recorded a discrete net tax benefit of $60.1 million in the period ending December 31, 2017. This tax benefit is due to the corporate federal tax rate reduction on our net deferred tax liability.

The SEC staff issued Staff Accounting Bulletin 118 ("SAB 118") which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under Accounting Standards Codification 740, Income Taxes ("ASC 740"). In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent a company’s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. We have recorded an adjustment as a result of the Tax Act as described above. We believe our analysis to be complete and do not anticipate any material future changes to financial statements as a result of the impact of the Tax Act. If any changes are determined, we will record those as part of the measurement period.

Valuation Allowance on Deferred Tax Assets

Management assesses available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. In evaluating our ability to recover deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies and results of recent operations.

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As part of our review in determining the need for a valuation allowance, we assess the potential release of existing valuation allowances. In 2016, we determined that the positive evidence in favor of releasing the valuation allowance, particularly evidence that was objectively verifiable, outweighed the negative evidence. We utilize a rolling twelve quarters of pretax income adjusted for permanent book to tax differences as a measure of cumulative results in recent years. We transitioned from a cumulative loss position to a cumulative income position over the rolling twelve quarters during 2016. Other evidence considered in the analysis included, but was not limited to, a trend reflective of improvement in recent earnings, forecasts of profitability and taxable income and the reversal of existing temporary differences. The change in these conditions during 2016 provided positive evidence that supported the release of the valuation allowance against a significant portion of our deferred tax assets. As such, we concluded that it was more likely than not that the benefit from these deferred tax assets would be realized. As a result, during the year ended December 31, 2016, we released $201.5 million of valuation allowance on our federal and state income tax net operating loss carryforwards and other deferred tax assets. For the year ended December 31, 2017, no significant changes of evidence have occurred that would require a change to our valuation allowance position.

We have maintained a valuation allowance of $28.8 million against certain federal and state deferred tax assets as of December 31, 2017 due to uncertainties related to our ability to realize the tax benefits associated with these assets. In assessing the need to establish a valuation allowance, we consider, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of profitability and taxable income, the duration of statutory carryforward periods, our experience with the utilization of operating loss and tax credit carryforwards before expiration and tax planning strategies. Valuation allowances are evaluated periodically and subject to change in future reporting periods as a result of changes in the factors noted above.

Provision (Benefit) for Income Taxes
A summary of the provision (benefit) for income taxes is as follows:

	Year Ended December 31,		
(In thousands)	2017	2016	2015
Current			
Federal	$(10,367)	$—	$—
State	5,335	1,242	2,052
Total current taxes provision	(5,032)	1,242	2,052
Deferred			
Federal	6,343	(190,207)	(9,493)
State	1,695	(8,521)	807
Total deferred taxes benefit	8,038	(198,728)	(8,686)
Provision (benefit) for income taxes from continuing operations	$3,006	$(197,486)	$(6,634)
Provision (benefit) for income taxes included on the consolidated statement of operations			
Provision (benefit) for income taxes from continuing operations	$3,006	$(197,486)	$(6,634)
Provision (benefit) for income taxes from discontinued operations	14,855	146,379	(540)
Provision (benefit) for income taxes from continuing and discontinued operations	$17,861	$(51,107)	$(7,174)

Our tax provision for the year ended December 31, 2017 was favorably impacted by the federal statutory tax rate change applied to our net deferred tax liability. Based on this revaluation, we have recorded a discrete tax benefit of $60.1 million.

Our tax benefit for the year ended December 31, 2016 resulted from the release of a valuation allowance on our federal and state net operating loss carryforwards and other deferred tax assets.

Our tax benefit for the year ended December 31, 2015 was favorably impacted by the partial release of the valuation allowance on our federal and state net operating losses, impairment charges to indefinite lived intangible assets which resulted in a reduction in our recognized deferred tax liability on these assets, federal and state audit settlements in connection with our IRS and New Jersey income tax examinations and, the realization of certain unrecognized tax benefits, inclusive of the reversal of related accrued interest.

Additionally, the tax benefit in 2015 was adversely impacted by an accrual of non-cash tax expense in connection with the tax amortization of indefinite lived intangible assets that was not available to offset existing deferred tax assets. The deferred tax liabilities created by the tax amortization of these intangibles cannot be used to offset corresponding increases in the net operating loss deferred tax assets in determining our valuation allowance.

The following table provides a reconciliation between the federal statutory rate and the effective income tax rate, expressed as a percentage of income from continuing operations before income taxes:

	Year Ended December 31,		
	2017	2016	2015
Tax at federal statutory rate	35.0 %	35.0 %	35.0 %
Federal statutory rate change on deferred tax liability	(35.2)%	— %	— %
State income taxes, net of federal benefit	2.7 %	(59.2)%	69.2 %
Compensation-based credits	(1.0)%	(21.7)%	(60.8)%
Valuation allowance for deferred tax assets	— %	(2,448.1)%	200.9 %
Company provided benefits	0.5 %	14.8 %	152.9 %
Nondeductible expenses	0.5 %	10.3 %	19.0 %
Tax exempt interest	(0.3)%	(6.9)%	(13.8)%
Accrued interest on uncertain tax benefits	0.1 %	2.1 %	(139.7)%
Uncertain tax benefits	— %	— %	(421.6)%
Other, net	(0.5)%	1.5 %	(4.5)%
Effective tax rate	1.8 %	(2,472.2)%	(163.4)%

Status of Examinations

In January 2015, we received Joint Committee on Taxation ("Joint Committee") approval of the 2005-2009 IRS appeals settlement reached in August 2013. We received a refund of $2.4 million in connection with the appeals settlement. Additionally, in 2015, we received a final audit determination in connection with our New Jersey examination, effectively settling years 2003 through 2009. We received a refund of $1.1 million as a result of the New Jersey examination.

We generated net operating losses on our federal income tax returns for years 2011 - 2013. These returns remain subject to federal examination until the statute of limitations expires for the year in which the net operating losses are utilized.

We are also currently under examination for various state income and franchise tax matters. As it relates to our material state returns, we are subject to examination for tax years ended on or after December 31, 2001, and the statute of limitations will expire over the period September 2018 through October 2021.

We believe that we have adequately reserved for any tax liability; however, the ultimate resolution of these examinations may result in an outcome that is different than our current expectation. We do not believe the ultimate resolution of these examinations will have a material impact on our consolidated financial statements.

Other Long-Term Tax Liabilities

The impact of an uncertain income tax position taken in our income tax return is recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position is not recognized if it has less than a 50% likelihood of being sustained. Our liability for uncertain tax positions is recorded as other long-term tax liabilities in our consolidated balance sheets.

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A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Year Ended December 31,		
(In thousands)	2017	2016	2015
Unrecognized tax benefit, beginning of year	$2,482	$2,482	$30,198
Additions:			
Tax positions related to current year	—	—	—
Reductions:			
Tax position related to prior years	—	—	(27,716)
Unrecognized tax benefits, end of year	$2,482	$2,482	$2,482

Included in the $2.5 million balance of unrecognized tax benefits at December 31, 2017, are $2.0 million of federally tax effected benefits that, if recognized, would impact the effective tax rate. We recognize interest related to unrecognized tax benefits in our income tax provision. During the year ended December 31, 2017, we recognized interest and penalties of approximately $0.1 million in our tax provision. During the year ended December 31, 2015 we recognized interest related benefits, due to favorable settlements, of $6.2 million in our income tax provision. We have accrued $1.0 million and $0.8 million of interest and penalties as of December 31, 2017 and 2016, respectively, in our consolidated balance sheets.

During the first quarter of 2015, we received Joint Committee approval on our IRS appeals agreement, effectively settling our 2005 through 2009 examination. During the third quarter of 2015, we received a final audit determination in connection with our New Jersey examination, effectively settling years 2003 through 2009. As a result of the resolution of these audits, we reduced our unrecognized tax benefits by $27.7 million, of which $19.5 million impacted our effective tax rate. Due to the utilization of tax loss carryforwards in certain states, the statute of limitations remains open with respect to years in which the tax losses are utilized. When these years close, unrecognized tax benefits may be realized. We do not anticipate any material changes to our unrecognized tax benefits over the next twelve-month period.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Commitments

Capital Spending and Development

We continually perform on-going refurbishment and maintenance at our facilities to maintain our standards of quality. Certain of these maintenance costs are capitalized, if such improvement or refurbishment extends the life of the related asset, while other maintenance costs that do not so qualify are expensed as incurred. The commitment of capital and the related timing thereof are contingent upon, among other things, negotiation of final agreements and receipt of approvals from the appropriate regulatory bodies. We must also comply with covenants and restrictions set forth in our debt agreements.

Acquisitions

We recently announced the Penn National Purchase Agreement and Valley Forge Merger Agreement, pursuant to which we will acquire additional casino properties. See Note 2, Acquisitions and Divestitures, for further discussion of the commitments arising from these agreements.

Kansas Management Contract

As part of the Kansas Management Contract approved by the Kansas Racing and gaming Commission on January 11, 2011, Kansas Star committed to donate $1.5 million each year to support education in the local area in which Kansas Star operates for the duration of the Kansas Management Contract. We have made all distributions under this commitment as scheduled and such related expenses are recorded in Selling, general and administrative expenses on the consolidated statements of operations.

Mulvane Development Agreement

On March 7, 2011, Kansas Star entered into a Development Agreement with the City of Mulvane ("Mulvane Development Agreement") related to the provision of water, sewer, and electrical utilities to the Kansas Star site. This agreement sets forth certain parameters governing the use of public financing for the provision of such utilities, through the issuance of general obligation bonds by the City of Mulvane, paid for through the imposition of a special tax assessment on the Kansas Star site payable over 15 years in an amount equal to the City's full obligations under the general obligation bonds.

All infrastructure improvements to the Kansas Star site under the Mulvane Development Agreement are complete and the City of Mulvane issued $19.7 million in general obligation bonds related to these infrastructure improvements. As of December 31, 2017 and 2016, under the Mulvane Development Agreement, Kansas Star recorded $1.7 million at each date, which is included in accrued liabilities on the consolidated balance sheets and $8.2 million, net of a $3.5 million discount, and $8.9 million, net of a $4.0 million discount, respectively, which is recorded as a long-term obligation in other liabilities on the consolidated balance sheets. Interest costs are expensed as incurred and the discount will be amortized to interest expense over the term of the special tax assessment ending in 2028. Kansas Star's special tax assessment related to these bonds is approximately $1.7 million annually. Payments under the special tax assessment are secured by irrevocable letters of credit of $5.0 million issued by the Company in favor of the City of Mulvane, representing an amount equal to three times the annual special assessment tax imposed on Kansas Star.

Contingent Payments
In connection with securing the Kansas Management Contract, Kansas Star agreed to pay a former casino project promoter 1% of Kansas Star’s earnings before interest expense, taxes, depreciation and amortization ("EBITDA") each month for a period of 10 years commencing December 20, 2011.

Minimum Assessment Agreement
In 2007, Diamond Jo Dubuque entered into a Minimum Assessment Agreement with the City of Dubuque (the "City"). Under the Minimum Assessment Agreement, Diamond Jo Dubuque and the City agreed to a minimum taxable value related to the new casino of $57.9 million. Diamond Jo Dubuque agreed to pay property taxes to the City based on the actual taxable value of the casino, but not less than the minimum taxable value. Scheduled payments of principal and interest on the City Bonds will be funded through Diamond Jo Dubuque's payment obligations under the Minimum Assessment Agreement. Diamond Jo Dubuque is also obligated to pay any shortfall should property taxes be insufficient to fund the principal and interest payments on the City Bonds.

Interest costs under the Minimum Assessment Agreement obligation are expensed as incurred. As of December 31, 2017 and 2016, the remaining obligation under the Minimum Assessment Agreement was $1.9 million at each date, which was recorded in accrued liabilities on the consolidated balance sheets and $13.8 million, net of a $2.6 million discount, and $14.1 million, net of a $2.8 million discount, respectively, which was recorded as a long-term obligation in other liabilities on the consolidated balance sheets. The discount will be amortized to interest expense over the life of the Minimum Assessment Agreement. Total minimum payments by Diamond Jo Dubuque under the Minimum Assessment Agreement are approximately $1.9 million per year through 2036.

Public Parking Facility Agreement
Diamond Jo Dubuque has an agreement with the City for use of the public parking facility adjacent to Diamond Jo Dubuque's casino and owned and operated by the City (the "Parking Facility Agreement"). The Parking Facility Agreement calls for: (i) the payment by the Company for the reasonable and necessary actual operating costs incurred by the City for the operation, security, repair and maintenance of the public parking facility; and (ii) the payment by the Company to the City of $65 per parking space in the public parking facility per year, subject to annual increases based on any increase in the Consumer Price Index, which funds will be deposited into a special sinking fund and used by the City for capital expenditures necessary to maintain the public parking facility. Operating costs of the parking facility incurred by Diamond Jo Dubuque are expensed as incurred. Deposits to the sinking fund are recorded as other assets. When the sinking fund is used for capital improvements, such amounts are capitalized and amortized over their remaining useful life.

Iowa Qualified Sponsoring Organization Agreements

Diamond Jo Dubuque and Diamond Jo Worth are required to pay their respective qualified sponsoring organization, who hold a joint gaming license with Diamond Jo Dubuque and Diamond Jo Worth, 4.50% and 5.76%, respectively, of the casino’s adjusted gross receipts on an ongoing basis. Diamond Jo Dubuque expensed $3.1 million, during the year ended December 31, 2017 and $3.0 million, in the year ended December 31, 2016 and 2015, respectively, related to its agreement. Diamond Jo Worth expensed $5.0 million, $4.9 million, and $5.0 million during the years ended December 31, 2017, 2016, and 2015, respectively, related to its agreement. The Diamond Jo Dubuque agreement expires on December 31, 2018. Diamond Jo Dubuque has entered into an amendment to the existing operating agreement with the qualified sponsoring organization. The new agreement will go into effect on January 1, 2019 and will extend for twelve years, expiring on December 31, 2030. The agreement is subject to review and approval by the state gaming commission. The Diamond Jo Worth agreement expires on March 31, 2025, and is subject to automatic ten-year renewal periods.

Development Agreement

In September 2011, the Company acquired the membership interests of a limited liability company (the "LLC") for a purchase price of $24.5 million. The primary asset of the LLC was a previously executed development agreement (the "Development Agreement") with Wilton Rancheria (the "Tribe"). The purchase price was allocated primarily to an intangible asset associated with the Company's rights under the agreement to assist the Tribe in the development and management of a gaming facility on the Tribe's land.

In July 2012, the Company and the Tribe amended and replaced the agreement with a new development agreement and a management agreement (the "Agreements"). The Agreements obligate us to fund certain pre-development costs, which are estimated to be approximately $1 million to $2 million annually, for the next several years and to assist the Tribe in its development and oversight of the gaming facility construction. Upon opening, we will manage the gaming facility. The pre-development costs funded by us are reimbursable to us with future cash flows from the operations of the gaming facility under terms of a note receivable from the Tribe.

In January 2017, the Company funded the acquisition of land that is the intended site of the Wilton Rancheria casino and, in February 2017, the land was placed into trust by the U.S. Bureau of Indian Affairs for the benefit of the Tribe. The cost of the land will be recorded as a receivable on our consolidated balance sheet, and we expect to be reimbursed for this cost when project financing is in place. Should the project be abandoned, ownership of the land would revert to the Company.

The Agreements provide that the Company will receive future revenue for its services to the Tribe contingent upon successful development of the gaming facility and based on future net revenues at the gaming facility. In September 2017, the California State Legislature unanimously approved, and the Governor of California executed, a tribal-state gaming compact with the tribe allowing the development of the casino. With the compact now in place, we are in the process of finalizing project design and preparation and expect to begin construction mid-2018, with a construction timeline of 18 to 24 months.

Future Minimum Lease Payments and Rental Income

Future minimum lease payments required under noncancelable operating leases, which are primarily related to land leases are as follows:

(In thousands)	Lease Obligations
For the year ending December 31,	
2018	$ 20,642
2019	17,826
2020	15,325
2021	14,330
2022	13,884
Thereafter	314,391
Total	$ 396,398

Rent expense included in selling, general and administrative expenses on the accompanying consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015 was $30.3 million, $31.0 million, and $29.0 million, respectively, and primarily relates to land leases and advertising-related expenses.

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Future minimum rental income, which is primarily related to retail and restaurant facilities located within our properties are as follows:

(In thousands)	Minimum Rental Income
For the year ending December 31,	
2018	$ 3,432
2019	2,371
2020	1,665
2021	930
2022	771
Thereafter	250
Total	$ 9,419

Contingencies

Legal Matters

We are parties to various legal proceedings arising in the ordinary course of business. We believe that all pending claims, if adversely decided, would not have a material adverse effect on our business, financial position or results of operations.

NOTE 10. STOCKHOLDERS' EQUITY AND STOCK INCENTIVE PLANS

Share Repurchase Program

We have in the past, and may in the future, acquire our equity securities through open market purchases, privately negotiated transactions, tender offers, exchange offers, redemptions or otherwise, upon such terms and at such prices as we may determine from time to time. In July 2008, our Board of Directors authorized an amendment to an existing share repurchase program to increase the amount of common stock that can be repurchased to $100 million. We are not obligated to repurchase any shares under this program. On May 2, 2017 the Company announced that its Board of Directors had reaffirmed the Company's existing share repurchase program, and 1.2 million shares were repurchased during the year ended December 31, 2017. As of December 31, 2017, $60.1 million remained available under this authorization. There were no share repurchases during the years ended December 31, 2016 or 2015.

The following table provides information regarding share repurchases during the referenced periods.[1]

(In thousands, except per share data)	For the Year Ended December 31, 2017
Shares repurchased [2]	1,198
Total cost, including brokerage fees	$ 31,927
Average repurchase price per share [3]	$ 26.64

[1] Shares repurchased reflect repurchases settled during the twelve months ended December 31, 2017. These amounts exclude repurchases traded but not yet settled on or before December 31, 2017.
[2] All shares repurchased have been retired and constitute authorized but unissued shares.
[3] Figures in the table may not recalculate exactly due to rounding. Average repurchase price per share is calculated based on unrounded numbers.

Subject to applicable corporate securities laws, repurchases under our stock repurchase program may be made at such times and in such amounts as we deem appropriate. Repurchases can be discontinued at any time that we feel additional purchases are not warranted. We intend to fund the repurchases under the stock repurchase program with existing cash resources and availability under our Credit Facility. We are subject to certain limitations regarding the repurchase of common stock, such as restricted payment limitations related to our outstanding notes and our Credit Facility.

Dividends

Dividends are declared at the discretion of our Board of Directors. We are subject to certain limitations regarding the payment of dividends, such as restricted payment limitations contained in our Credit Facility and the indentures for our outstanding notes.

On May 2, 2017, the Company announced that its Board of Directors had authorized the reinstatement of the Company’s cash dividend program. The dividends declared by the Board under this program are:

Declaration date	Record date	Payment date	Amount per share
May 2, 2017	June 15, 2017	July 15, 2017	$0.05
September 6, 2017	September 18, 2017	October 15, 2017	0.05
December 7, 2017	December 28, 2017	January 15, 2018	0.05

No dividends were declared during the years ended December 31, 2016 or 2015.

Stock Incentive Plan

In May 2012, the Company's stockholders approved the 2012 Stock Incentive Plan (the "2012 Plan"), which amended and restated the Company's 2002 Stock Incentive Plan (the "2002 Plan") to (a) provide for a term ending ten years from the date of stockholder approval at the Annual Meeting, (b) increase the maximum number of shares of the Company's common stock authorized for issuance over the term of the 2012 Plan by 4 million shares from 17 million to 21 million shares, (c) permit the future grant of certain equity-based awards, including awards designed to constitute performance-based compensation under Section 162(m) of the Internal Revenue Code, and (d) make certain other changes. Under our 2012 Plan, approximately 4.4 million shares remain available for grant at December 31, 2017. The number of authorized but unissued shares of common stock under this 2012 Plan as of December 31, 2017 was approximately 9.7 million shares.

Grants made under the 2012 Plan include provisions that entitle the grantee to automatic vesting acceleration in the event of a grantee’s separation from service (including as a result of retirement, death or disability), other than for cause (as defined), after reaching the defined age and years of service thresholds. These provisions result in the accelerated recognition of the stock compensation expense for those grants issued to employees who have met the stipulated thresholds.

Stock Options

Options granted under the 2012 Plan generally become exercisable ratably over a three-year period from the date of grant. Options that have been granted under the 2012 Plan had an exercise price equal to the market price of our common stock on the date of grant and will expire no later than ten years after the date of grant.

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Summarized stock option plan activity is as follows:

	Options	Weighted Average Option Price	Weighted Average Remaining Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2015	7,169,668	$ 25.73		
Granted	200,673	19.98		
Canceled	(1,463,497)	39.82		
Exercised	(1,301,789)	7.53		
Outstanding at December 31, 2015	4,605,055	26.14		
Granted	216,509	17.50		
Canceled	(1,260,750)	38.63		
Exercised	(452,898)	6.49		
Outstanding at December 31, 2016	3,107,916	23.36		
Granted	—	—		
Canceled	(1,323,500)	39.30		
Exercised	(241,964)	8.61		
Outstanding at December 31, 2017	1,542,452	$ 11.99	5.3	$ 35,565
Exercisable at December 31, 2016	2,696,315	$ 24.27	3.1	$ 14,587
Exercisable at December 31, 2017	1,335,717	$ 11.00	4.8	$ 32,128

Share-based compensation costs related to stock option awards are calculated based on the fair value of each option grant on the date of the grant using the Black-Scholes option pricing model.

The following table summarizes the information about stock options outstanding and exercisable at December 31, 2017:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$5.22	25,510	4.9	$ 5.22	25,510	$ 5.22
6.60	28,000	0.8	6.60	28,000	6.60
6.70	196,869	3.9	6.70	196,869	6.70
7.55	65,000	1.8	7.55	65,000	7.55
8.34	294,163	2.8	8.34	294,163	8.34
9.86	260,882	5.9	9.86	260,882	9.86
11.57	229,846	6.2	11.57	229,846	11.57
17.75	216,509	8.9	17.75	72,174	17.75
19.98	200,673	7.4	19.98	138,273	19.98
33.31	25,000	0.0	33.31	25,000	33.31
$5.22-$33.31	1,542,452	5.3	$ 11.99	1,335,717	$ 11.00

The total intrinsic value of in-the-money options exercised during the years ended December 31, 2017, 2016 and 2015 was $3.9 million, $5.9 million, and $11.1 million, respectively. The total fair value of options vested during the years ended December 31, 2017, 2016 and 2015 was approximately $1.6 million, $2.0 million, and $1.9 million, respectively. As of December 31, 2017, there was approximately $0.2 million of total unrecognized share-based compensation costs related to unvested stock options, which is expected to be recognized over approximately 1.4 years, the weighted-average remaining requisite service period.

Restricted Stock Units

Our 2012 Plan provides for the grant of Restricted Stock Units ("RSUs"). An RSU is an award that may be earned in whole, or in part, upon the passage of time, and that may be settled for cash, shares, other securities or a combination thereof. The RSUs do not contain voting rights and are not entitled to dividends. The RSUs are subject to the terms and conditions contained in the applicable award agreement and the 2012 Plan. Share-based compensation costs related to RSU awards are calculated based on the market price on the date of the grant.

We annually award RSUs to certain members of our Board of Directors. Each RSU is to be paid in shares of common stock upon the member's cessation of service to the Company. These RSUs were issued for past service; therefore, they are expensed on the date of issuance.

We also grant RSUs to members of management of the Company, which represents a contingent right to receive one share of our common stock upon vesting. An RSU generally vests on the third anniversary of its issuance and the share-based compensation expense is amortized to expense over the requisite service period.

Summarized RSU activity is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2015	2,534,496	
Granted	541,016	$19.05
Canceled	(40,800)	
Awarded	(713,886)	
Outstanding at December 31, 2015	2,320,826	
Granted	542,220	$18.06
Canceled	(30,400)	
Awarded	(871,528)	
Outstanding at December 31, 2016	1,961,118	
Granted	442,879	$27.40
Canceled	(38,964)	
Awarded	(727,821)	
Outstanding at December 31, 2017	1,637,212	

As of December 31, 2017, there was approximately $12.1 million of total unrecognized share-based compensation costs related to unvested RSUs, which is expected to be recognized over approximately 2.5 years.

Performance Stock Units

Our 2012 Plan provides for the grant of Performance Stock Units ("PSUs"). A PSU is an award which may be earned in whole, or in part, upon the passage of time, and the attainment of performance criteria, and which may be settled for cash, shares, other securities or a combination thereof. The PSUs do not contain voting rights and are not entitled to dividends. The PSUs are subject to the terms and conditions contained in the applicable award agreement and our 2012 Plan. We annually award PSUs to certain members of management.

Each PSU represents a contingent right to receive a share of Boyd Gaming Corporation common stock; however, the actual number of common shares awarded is dependent upon the occurrence of: (i) a requisite service period; and (ii) an evaluation of specific performance conditions. The performance conditions are based on Company metrics for net revenue growth, EBITDA growth and customer service scores, all of which are determined on a comprehensive annual three-year growth rate. Based upon actual and combined achievement, the number of shares awarded could range from zero, if no conditions are met, a 50% payout if only threshold performance is achieved, a payout of 100% for target performance, or a payout of up to 200% of the original award for achievement of maximum performance. Each condition weighs equally and separately in determining the payout, and based upon management's estimates at the service inception date, the Company is expected to meet the target for each performance condition. Therefore, the related compensation cost of these PSUs assumes all units granted will be awarded. Share-based compensation costs related to PSU awards are calculated based on the market price on the date of the grant.

These PSUs will vest three years from the service inception date, during which time achievement of the related performance conditions is periodically evaluated, and the number of shares expected to be awarded, and resulting compensation expense, is adjusted accordingly.

Performance Shares Vesting
The PSU grants awarded in fourth quarter 2013 and 2012 vested during first quarter 2017 and 2016, respectively. Common shares were issued based on the determination by the Compensation Committee of the Board of Directors of our actual achievement of net revenue growth, EBITDA growth and customer service scores for the three-year performance period of each grant. As provided under the provisions of our stock incentive plan, certain of the participants elected to surrender a portion of the shares to be received to pay the withholding and other payroll taxes payable on the compensation resulting from the vesting of the PSUs.
The PSU grant awarded in November 2013 resulted in a total of 268,429 shares being issued during first quarter 2017, representing approximately 0.80 shares per PSU. Of the 268,429 shares issued, a total of 94,776 were surrendered by the participants for payroll taxes, resulting in a net issuance of 173,653 shares due to the vesting of the 2013 grant. The actual achievement level under the award metrics equaled the estimated performance as of year-end 2016; therefore, the vesting of the PSUs did not impact compensation costs in our 2017 consolidated statement of operations.

The PSU grant awarded in December 2012 resulted in a total of 213,365 shares being issued during first quarter 2016, representing approximately 0.59 shares per PSU. Of the 213,365 shares issued, a total of 54,338 were surrendered by the participants for payroll taxes, resulting in a net issuance of 159,027 shares due to the vesting of the 2012 grant. The actual achievement level under the award metrics equaled the estimated performance as of year-end 2015; therefore, the vesting of the PSUs did not impact compensation costs in our 2016 consolidated statement of operations.

Summarized PSU activity is as follows:

	Performance Stock Units	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2015	1,411,640	
Granted	240,156	$16.75
Performance Adjustment	264,306	
Canceled	(2,677)	
Awarded	(663,945)	
Outstanding at December 31, 2015	1,249,480	
Granted	241,235	$17.75
Performance Adjustment	(148,272)	
Canceled	—	

Awarded	(213,365)	
Outstanding at December 31, 2016	1,129,078	
Granted	275,305	$28.94
Performance Adjustment	(73,407)	
Canceled	—	
Awarded	(268,429)	
Outstanding at December 31, 2017	1,062,547	

As of December 31, 2017, there was approximately $6.9 million of total unrecognized share-based compensation costs related to unvested PSUs, which is expected to be recognized over approximately 2.7 years. Based on the current estimates of performance compared to the targets set for the respective PSU grants, the Company estimates that approximately 1.4 million shares will be issued to settle the PSUs outstanding at December 31, 2017.

Career Shares

Our Career Shares Program is a stock incentive award program for certain executive officers to provide for additional capital accumulation opportunities for retirement. The program incentivizes and rewards executives for their period of service. Our Career Shares Program was adopted in December 2006, and modified in October 2010, as part of the overall update of our compensation programs. The Career Shares Program rewards eligible executives with annual grants of Boyd Gaming Corporation stock units, to be paid out at retirement. The payout at retirement is dependent upon the executive's age at such retirement and the number of years of service with the Company. Executives must be at least 55 years old and have at least 10 years of service to receive any payout at retirement. Career Shares do not contain voting rights and are not entitled to dividends. Career Shares are subject to the terms and conditions contained in the applicable award agreement and our 2012 Plan. The Career Share awards are tranched by specific term, in the following periods: 10 years, 15 years and 20 years of service. These grants vest over the remaining period of service required to fulfill the requisite years in each of these tranches, and compensation expense is recorded in accordance with the specific vesting provisions. Share-based compensation costs related to Career Shares awards are calculated based on the market price on the date of the grant.

Summarized Career Shares activity is as follows:

	Career Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2015	896,585	
Granted	103,018	$12.51
Canceled	—	
Awarded	(31,028)	
Outstanding at December 31, 2015	968,575	
Granted	73,064	$19.01
Canceled	—	
Awarded	—	
Outstanding at December 31, 2016	1,041,639	
Granted	66,000	$20.41
Canceled	(11,236)	
Awarded	(82,944)	
Outstanding at December 31, 2017	1,013,459	

As of December 31, 2017, there was approximately $1.1 million of total unrecognized share-based compensation costs related to unvested Career Shares.

Share-Based Compensation

We account for share-based awards exchanged for employee services in accordance with the authoritative accounting guidance for share-based payments. Under the guidance, share-based compensation expense is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense, net of estimated forfeitures, over the employee's requisite service period.

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The following table summarizes our share-based compensation costs by award type:

	Year Ended December 31,		
(In thousands)	2017	2016	2015
Stock Options	$1,193	$1,974	$2,821
Restricted Stock Units	7,463	8,883	9,909
Performance Stock Units	7,381	3,353	5,135
Career Shares	1,376	1,308	1,399
Total share-based compensation costs	$17,413	$15,518	$19,264

The following table provides classification detail of the total costs related to our share-based employee compensation plans reported in our consolidated statements of operations:

	Year Ended December 31,		
(In thousands)	2017	2016	2015
Gaming	$363	$428	$393
Food and beverage	69	82	75
Room	33	39	36
Selling, general and administrative	1,846	2,176	1,996
Corporate expense	15,102	12,793	16,764
Total share-based compensation expense	$17,413	$15,518	$19,264

NOTE 11. FAIR VALUE MEASUREMENTS

We have adopted the authoritative accounting guidance for fair value measurements, which does not determine or affect the circumstances under which fair value measurements are used, but defines fair value, expands disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions.

These inputs create the following fair value hierarchy:

Level 1: Quoted prices for identical instruments in active markets.
Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

As required by the guidance for fair value measurements, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Thus, assets and liabilities categorized as Level 3 may be measured at fair value using inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels.

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Balances Measured at Fair Value
The following tables show the fair values of certain of our financial instruments:

	December 31, 2017			
(In thousands)	Balance	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$203,104	$203,104	$ —	$—
Restricted cash	24,175	24,175	—	—
Investment available for sale	17,752	—	—	17,752
Liabilities				
Contingent payments	$2,887	$—	$ —	$2,887

	December 31, 2016			
(In thousands)	Balance	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$193,862	$193,862	$ —	$—
Restricted cash	16,488	16,488	—	—
Investment available for sale	17,259	—	—	17,259
Liabilities				
Contingent payments	$3,038	$—	$ —	$3,038

Cash and Cash Equivalents and Restricted Cash
The fair value of our cash and cash equivalents and restricted cash, classified in the fair value hierarchy as Level 1, is based on statements received from our banks at December 31, 2017 and 2016.

Investment Available for Sale
We have an investment in a single municipal bond issuance of $20.5 million aggregate principal amount of 7.5% Urban Renewal Tax Increment Revenue Bonds, Taxable Series 2007 that is classified as available for sale with a maturity date of June 1, 2037. We are the only holder of this instrument and there is no quoted market price for this instrument. As such, the fair value of this investment is classified as Level 3 in the fair value hierarchy. The estimate of the fair value of such investment was determined using a combination of current market rates and estimates of market conditions for instruments with similar terms, maturities, and degrees of risk and a discounted cash flows analysis as of December 31, 2017 and 2016. The fair value of the investment is estimated using a discounted cash flows approach and the significant unobservable input used in the valuation as of December 31, 2017 and 2016 is a discount rate of 9.6% and 10.3%, respectively. Unrealized gains and losses on this instrument resulting from changes in the fair value of the instrument are not charged to earnings, but rather are recorded as other comprehensive income (loss) in the stockholders' equity section of the consolidated balance sheets. At December 31, 2017 and 2016, $0.5 million and $0.4 million, respectively, of the carrying value of the investment available for sale is included as a current asset in prepaid expenses and other current assets, and at December 31, 2017 and 2016, $17.3 million and $16.8 million, respectively, is included in investment on the consolidated balance sheets. The discount associated with this investment of $2.9 million and $3.1 million as of December 31, 2017 and 2016, respectively, is netted with the investment balance and is being accreted over the life of the investment using the effective interest method. The accretion of such discount is included in interest income on the consolidated statements of operations.

Contingent Payments

In connection with securing the Kansas Management Contract, Kansas Star agreed to pay a former casino project promoter 1% of Kansas Star's EBITDA each month for a period of ten years commencing December 20, 2011. The liability is recorded at the estimated fair value of the contingent payments using a discounted cash flows approach and the significant unobservable input used in the valuation at December 31, 2017 and 2016 is a discount rate of 9.2% and 18.5%, respectively. At December 31, 2017 and 2016, there was a current liability of $0.8 million and $0.9 million, respectively, related to this agreement, which was recorded

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in accrued liabilities on the respective consolidated balance sheets, and long-term obligations of $2.1 million and $2.2 million, respectively, which were included in other liabilities on the respective consolidated balance sheets.

The following tables summarize the changes in fair value of the Company's Level 3 assets and liabilities:

(In thousands)	December 31, 2017 Assets Investment Available for Sale	December 31, 2017 Liabilities Contingent Payments
Balance at January 1, 2017	$17,259	$ (3,038)
Total gains (losses) (realized or unrealized):		
Included in interest income (expense)	138	(335)
Included in other comprehensive income (loss)	795	—
Included in other items, net	—	(333)
Purchases, sales, issuances and settlements:		
Settlements	(440)	819
Balance at December 31, 2017	$17,752	$ (2,887)

(In thousands)	December 31, 2016 Assets Investment Available for Sale	December 31, 2016 Liabilities Contingent Payments
Balance at January 1, 2016	$17,839	$ (3,632)
Total gains (losses) (realized or unrealized):		
Included in interest income (expense)	130	(600)
Included in other comprehensive income (loss)	(299)	—
Included in other items, net	—	346
Purchases, sales, issuances and settlements:		
Settlements	(411)	848
Balance at December 31, 2016	$17,259	$ (3,038)

The fair value of intangible assets, classified in the fair value hierarchy as Level 3, is utilized in performing its impairment analyses (see Note 4, Intangible Assets).

Balances Disclosed at Fair Value
The following tables provide the fair value measurement information about our obligation under minimum assessment agreements and other financial instruments:

(In thousands)	December 31, 2017 Outstanding Face Amount	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
Liabilities				
Obligation under assessment arrangements	$31,729	$25,602	$26,999	Level 3

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	December 31, 2016			
(In thousands)	Outstanding Face Amount	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
Liabilities				
Obligation under assessment arrangements	$33,456	$26,660	$ 27,054	Level 3
Other financial instruments	100	97	97	Level 3

The following tables provide the fair value measurement information about our long-term debt:

	December 31, 2017			
(In thousands)	Outstanding Face Amount	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
Credit Facility	$1,621,054	$1,595,703	$1,625,178	Level 2
6.875% Senior Notes due 2023	750,000	740,545	798,750	Level 1
6.375% Senior Notes due 2026	750,000	739,128	810,000	Level 1
Other	504	504	504	Level 3
Total debt	$3,121,558	$3,075,880	$3,234,432	

	December 31, 2016			
(In thousands)	Outstanding Face Amount	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
Credit Facility	$1,782,538	$1,752,147	$1,791,853	Level 2
6.875% Senior Notes due 2023	750,000	738,791	806,250	Level 1
6.375% Senior Notes due 2026	750,000	737,926	804,375	Level 1
Other	591	591	591	Level 3
Total debt	$3,283,129	$3,229,455	$3,403,069	

The estimated fair value of the Credit Facility is based on a relative value analysis performed on or about December 31, 2017 and December 31, 2016. The estimated fair values of our Senior Notes are based on quoted market prices as of December 31, 2017 and December 31, 2016. The other debt is a fixed-rate debt that is payable in 32 semi-annual installments, beginning in 2008. It is not traded and does not have an observable market input; therefore, we have estimated its fair value to be equal to the carrying value.

There were no transfers between Level 1, Level 2 and Level 3 measurements during the years ended December 31, 2017 and 2016.

NOTE 12. EMPLOYEE BENEFIT PLANS

We contribute to multiemployer pension defined benefit plans under terms of collective-bargaining agreements that cover our union-represented employees. Contributions, based on wages paid to covered employees, totaled approximately $1.6 million, $1.5 million and $1.4 million for the years ended December 31, 2017, 2016 and 2015, respectively. These aggregate contributions were not individually significant to any of the respective plans. Our share of the unfunded vested liability related to multi-employer plans, if any, is not determinable and our participation is not individually significant on an individual multiemployer plan basis.

We have retirement savings plans under Section 401(k) of the Internal Revenue Code covering our non-union employees. The plans allow employees to defer up to the lesser of the Internal Revenue Code prescribed maximum amount or 100% of their income on a pre-tax basis through contributions to the plans. We expensed our voluntary contributions to the 401(k) profit-sharing plans and trusts of $4.4 million, $3.9 million and $3.3 million for the years ended December 31, 2017, 2016 and 2015, respectively.

NOTE 13. SEGMENT INFORMATION

We have aggregated certain of our properties in order to present three Reportable Segments: (i) Las Vegas Locals; (ii) Downtown Las Vegas; and (iii) Midwest and South. The table in Note 1, Summary of Significant Accounting Policies, lists the classification of each of our properties.

Results of Operations - Total Reportable Segment Net Revenues and Adjusted EBITDA
We evaluate each of our property's profitability based upon Property Adjusted EBITDA, which represents each property's earnings before interest expense, income taxes, depreciation and amortization, deferred rent, share-based compensation expense, project development, preopening and writedowns expenses, impairments of assets, other operating items, net, and gain or loss on early retirements of debt, as applicable. Total Reportable Segment Adjusted EBITDA is the aggregate sum of the Property Adjusted EBITDA for each of the properties included in our Las Vegas Locals, Downtown Las Vegas, and Midwest and South segments. Results for Downtown Las Vegas include the results of our Hawaii-based travel agency and captive insurance company.

We reclassify the reporting of corporate expense on the accompanying table in order to exclude it from our subtotal for Total Reportable Segment Adjusted EBITDA. Furthermore, corporate expense excludes its portion of share-based compensation expense. Corporate expense represents unallocated payroll, professional fees, aircraft expenses and various other expenses not directly related to our casino and hotel operations.

The following table sets forth, for the periods indicated, certain operating data for our Reportable Segments, and reconciles Adjusted EBITDA to operating income, as reported in our accompanying consolidated statements of operations:

	Year Ended December 31,		
(In thousands)	2017	2016	2015
Net Revenues			
Las Vegas Locals	$858,921	$647,867	$610,107
Downtown Las Vegas	243,543	236,385	234,191
Midwest and South	1,281,243	1,299,724	1,355,134
Total Reportable Segment Net Revenues	$2,383,707	$2,183,976	$2,199,432
Adjusted EBITDA			
Las Vegas Locals	$249,943	$176,420	$157,312
Downtown Las Vegas	54,535	52,420	49,314
Midwest and South	364,193	367,365	380,942
Total Reportable Segment Adjusted EBITDA	668,671	596,205	587,568
Corporate expense	(73,046)	(59,875)	(60,177)
Adjusted EBITDA	595,625	536,330	527,391
Other operating costs and expenses			
Deferred rent	1,267	3,266	3,428
Depreciation and amortization	217,522	196,226	207,118
Project development, preopening and writedowns	14,454	22,107	6,907
Share-based compensation expense	17,413	15,518	19,264
Impairments of assets	(426)	38,302	18,565
Other operating charges, net	1,900	284	907
Total other operating costs and expenses	252,130	275,703	256,189
Operating income	$343,495	$260,627	$271,202

Total Assets

The Company's total assets, by Reportable Segment, consisted of the following amounts:

	December 31,	
(In thousands)	2017	2016
Assets		
Las Vegas Locals	$1,792,119	$1,785,858
Downtown Las Vegas	170,574	157,319
Midwest and South	2,496,957	2,556,307
Total Reportable Segment assets	4,459,650	4,499,484
Corporate	226,280	171,267
Total assets	$4,685,930	$4,670,751

Capital Expenditures

The Company's capital expenditures by Reportable Segment, consisted of the following:

	Year Ended December 31,		
(In thousands)	2017	2016	2015
Capital Expenditures:			
Las Vegas Locals	$59,382	$42,069	$41,772
Downtown Las Vegas	21,705	28,431	13,000
Midwest and South	37,657	73,255	60,887
Total Reportable Segment Capital Expenditures	118,744	143,755	115,659
Corporate	71,673	16,672	12,646
Total Capital Expenditures	190,417	160,427	128,305
Change in Accrued Property Additions	47	(69)	2,865
Cash-Based Capital Expenditures	$190,464	$160,358	$131,170

The Company utilizes the Corporate entities to centralize the development of major renovation and other capital development projects that are included as construction in progress. After the project is complete, the corporate entities transfer the projects to the segment subsidiaries.

NOTE 14. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table presents selected quarterly financial information:

	Year Ended December 31, 2017				
(In thousands, except per share data)	First	Second	Third	Fourth	Year
Summary Operating Results:					
Net revenues	$605,342	$599,868	$587,665	$590,832	$2,383,707
Operating income	94,868	89,361	78,665	80,601	343,495
Income from continuing operations, net of tax	$35,114	$27,561	$22,976	$82,150	$167,801
Income from discontinued operations, net of tax	375	21,017	—	—	21,392
Net income	$35,489	$48,578	$22,976	$82,150	$189,193
Basic net income per common share:					
Continuing operations	$0.31	$0.24	$0.20	$0.72	$1.46
Discontinued operations	—	0.18	—	—	0.19
Basic net income per common share	$0.31	$0.42	$0.20	$0.72	$1.65
Diluted net income per common share:					
Continuing operations	$0.31	$0.24	$0.20	$0.71	$1.45
Discontinued operations	—	0.18	—	—	0.19
Diluted net income per common share	$0.31	$0.42	$0.20	$0.71	$1.64

	Year Ended December 31, 2016				
(In thousands, except per share data)	First	Second	Third	Fourth	Year
Summary Operating Results:					
Net revenues	$552,378	$544,874	$531,901	$554,823	$2,183,976
Operating income	82,250	80,490	67,916	29,971	260,627
Income from continuing operations, net of tax	$21,560	$11,307	$161,864	$10,742	$205,473
Income from discontinued operations, net of tax	11,630	18,715	180,707	1,478	212,530
Net income	$33,190	$30,022	$342,571	$12,220	$418,003
Basic net income per common share:					
Continuing operations	$0.19	$0.10	$1.41	$0.10	$1.79
Discontinued operations	0.10	0.16	1.58	0.01	1.86
Basic net income per common share	$0.29	$0.26	$2.99	$0.11	$3.65
Diluted net income per common share:					
Continuing operations	$0.19	$0.10	$1.40	$0.10	$1.78
Discontinued operations	0.10	0.16	1.57	0.01	1.85
Diluted net income per common share	$0.29	$0.26	$2.97	$0.11	$3.63

NOTE 15. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Separate condensed consolidating financial information for our subsidiary guarantors and non-guarantors of our 6.875% Notes and our 6.375% Notes is presented below. Each of these notes is fully and unconditionally guaranteed, on a joint and several basis, by certain of our current and future domestic restricted subsidiaries, all of which are 100% owned by us. The non-guarantors primarily represent our special purpose entities, tax holding companies, our less significant operating subsidiaries and our less than wholly owned subsidiaries.

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BOYD GAMING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015

On March 7, 2017, Aliante, Cannery and Eastside Cannery became guarantors of the 6.875% Notes, the 6.375% Notes and the Credit Facility.

The tables below present the condensed consolidating balance sheets as of December 31, 2017, and 2016, the condensed consolidating statements of operations for the years ended December 31, 2017, 2016 and 2015 and the condensed consolidating statements of cash flows for the years ended December 31, 2017, 2016 and 2015. We have reclassified certain prior year amounts in the current year presentation to reflect the designation of the additional Restricted Subsidiaries listed above as subsidiary guarantors.

Condensed Consolidating Balance Sheets

	December 31, 2017					
(In thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
Assets						
Cash and cash equivalents	$347	$199,574	$3,183	$—	$—	$203,104
Other current assets	78,226	35,310	12,568	—	(545)	125,559
Property and equipment, net	88,464	2,424,361	26,961	—	—	2,539,786
Investments in subsidiaries	4,917,341	—	18,097	—	(4,935,438)	—
Intercompany receivable	—	1,934,559	—	—	(1,934,559)	—
Other assets, net	14,725	33,369	38,217	—	—	86,311
Intangible assets, net	—	818,887	24,059	—	—	842,946
Goodwill, net	—	887,442	782	—	—	888,224
Total assets	$5,099,103	$6,333,502	$123,867	$—	$(6,870,542)	$4,685,930
Liabilities and Stockholders' Equity						
Current maturities of long-term debt	$23,895	$86	$—	$—	$—	$23,981
Other current liabilities	130,030	205,994	19,563	—	(264)	355,323
Accumulated losses of subsidiaries in excess of investment	—	73,130	—	—	(73,130)	—
Intercompany payable	888,444	—	1,046,114	—	(1,934,558)	—
Long-term debt, net of current maturities and debt issuance costs	3,051,481	418	—	—	—	3,051,899
Other long-term liabilities	(95,723)	259,902	(10,428)	—	—	153,751
Total stockholders' equity (deficit)	1,100,976	5,793,972	(931,382)	—	(4,862,590)	1,100,976
Total liabilities and stockholders' equity	$5,099,103	$6,333,502	$123,867	$—	$(6,870,542)	$4,685,930

BOYD GAMING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015

Condensed Consolidating Balance Sheets - continued

	December 31, 2016					
(In thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
Assets						
Cash and cash equivalents	$1,212	$189,364	$3,286	$—	$—	$193,862
Other current assets	78,915	26,715	8,908	—	(453)	114,085
Property and equipment, net	73,180	2,503,127	28,862	—	—	2,605,169
Investments in subsidiaries	4,505,897	139,465	—	—	(4,645,362)	—
Intercompany receivable	—	1,491,017	—	—	(1,491,017)	—
Other assets, net	13,598	31,899	3,708	—	—	49,205
Intangible assets, net	—	857,894	24,060	—	—	881,954
Goodwill, net	—	825,694	782	—	—	826,476
Total assets	$4,672,802	$6,065,175	$69,606	$—	$(6,136,832)	$4,670,751
Liabilities and Stockholders' Equity						
Current maturities of long-term debt	$30,250	$86	$—	$—	$—	$30,336
Other current liabilities	93,762	196,391	46,444	—	(1,429)	335,168
Accumulated losses of subsidiaries in excess of investment	—	—	8,257	—	(8,257)	—
Intercompany payable	521,002	—	968,811	254	(1,490,067)	—
Long-term debt, net of current maturities and debt issuance costs	3,198,613	506	—	—	—	3,199,119
Other long-term liabilities	(104,901)	298,624	(21,721)	—	—	172,002
Boyd Gaming Corporation stockholders' equity (deficit)	934,076	5,569,568	(932,185)	(254)	(4,637,129)	934,076
Noncontrolling interest	—	—	—	—	50	50
Total stockholders' equity (deficit)	934,076	5,569,568	(932,185)	(254)	(4,637,079)	934,126
Total liabilities and stockholders' equity	$4,672,802	$6,065,175	$69,606	$—	$(6,136,832)	$4,670,751

BOYD GAMING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015

Condensed Consolidating Statements of Operations

	Year Ended December 31, 2017					
(In thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
Net revenues	$73,292	$2,355,385	$47,687	$—	$(92,657)	$2,383,707
Operating costs and expenses						
Operating	—	1,203,933	43,182	—	—	1,247,115
Selling, general and administrative	44	354,423	7,612	—	(42)	362,037
Maintenance and utilities	—	108,092	1,370	—	—	109,462
Depreciation and amortization	12,041	201,401	4,080	—	—	217,522
Corporate expense	85,362	1,140	1,646	—	—	88,148
Project development, preopening and writedowns	7,806	2,912	3,736	—	—	14,454
Impairments of assets	600	1	(1,027)	—	—	(426)
Other operating items, net	725	1,175	—	—	—	1,900
Intercompany expenses	1,204	91,411	—	—	(92,615)	—
Total operating costs and expenses	107,782	1,964,488	60,599	—	(92,657)	2,040,212
Equity in earnings (losses) of subsidiaries	330,514	(1,374)	—	—	(329,140)	—
Operating income (loss)	296,024	389,523	(12,912)	—	(329,140)	343,495
Other expense (income)						
Interest expense, net	169,990	1,275	25	—	—	171,290
Loss on early extinguishments and modifications of debt	1,582	—	—	—	—	1,582
Other, net	(16)	(98)	(70)	—	—	(184)
Total other expense, net	171,556	1,177	(45)	—	—	172,688
Income (loss) from continuing operations before income taxes	124,468	388,346	(12,867)	—	(329,140)	170,807
Income tax benefit (provision)	64,725	(73,317)	5,586	—	—	(3,006)
Income (loss) from continuing operations, net of tax	189,193	315,029	(7,281)	—	(329,140)	167,801
Income from discontinued operations, net of tax	—	21,392	—	—	—	21,392
Net income (loss)	$189,193	$336,421	$(7,281)	$—	$(329,140)	$189,193
Comprehensive income (loss)	$189,626	$336,854	$(7,281)	$—	$(329,573)	$189,626

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BOYD GAMING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015

Condensed Consolidating Statements of Operations - continued

	Year Ended December 31, 2016					
(In thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
Net revenues	$121,939	$2,156,241	$49,131	$ —	$(143,335)	$2,183,976
Operating costs and expenses						
Operating	1,200	1,127,654	42,879	—	—	1,171,733
Selling, general and administrative	49,938	265,485	6,584	—	2	322,009
Maintenance and utilities	—	98,741	1,279	—	—	100,020
Depreciation and amortization	8,767	183,531	3,928	—	—	196,226
Corporate expense	66,703	1,738	4,227	—	—	72,668
Project development, preopening and writedowns	18,079	(3,292)	7,320	—	—	22,107
Impairments of assets	1,440	36,862	—	—	—	38,302
Other operating items, net	181	103	—	—	—	284
Intercompany expenses	1,205	140,671	1,461	—	(143,337)	—
Total operating costs and expenses	147,513	1,851,493	67,678	—	(143,335)	1,923,349
Equity in earnings (losses) of subsidiaries	442,902	(2,039)	—	—	(440,863)	—
Operating income (loss)	417,328	302,709	(18,547)	—	(440,863)	260,627
Other expense (income)						
Interest expense, net	157,923	51,783	25	—	—	209,731
Loss on early extinguishments of debt	28,356	14,008	—	—	—	42,364
Other, net	1	617	(73)	—	—	545
Total other expense (income), net	186,280	66,408	(48)	—	—	252,640
Income (loss) from continuing operations before income taxes	231,048	236,301	(18,499)	—	(440,863)	7,987
Income tax benefit	186,955	10,405	126	—	—	197,486
Income (loss) from continuing operations, net of tax	418,003	246,706	(18,373)	—	(440,863)	205,473
Income from discontinued operations, net of tax	—	212,530	—	—	—	212,530
Net income (loss)	$418,003	$459,236	$(18,373)	$ —	$(440,863)	$418,003
Comprehensive income (loss)	$417,704	$458,937	$(18,373)	$ —	$(440,564)	$417,704

BOYD GAMING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015

Consolidating Statements of Operations - continued

	Year Ended December 31, 2015					
(In thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
Net revenues	$121,541	$2,173,147	$48,353	$ —	$(143,609)	$2,199,432
Operating costs and expenses						
Operating	1,800	1,145,181	43,843	—	—	1,190,824
Selling, general and administrative	48,173	267,661	6,604	—	(18)	322,420
Maintenance and utilities	—	103,086	1,462	—	—	104,548
Depreciation and amortization	6,179	196,865	4,074	—	—	207,118
Corporate expense	71,700	1,781	3,460	—	—	76,941
Project development, preopening and writedowns	884	2,351	3,596	76	—	6,907
Impairments of assets	—	17,500	1,065	—	—	18,565
Other operating items, net	599	308	—	—	—	907
Intercompany expenses	1,204	140,971	1,416	—	(143,591)	—
Total operating costs and expenses	130,539	1,875,704	65,520	76	(143,609)	1,928,230
Equity in earnings (losses) of subsidiaries	190,570	(2,204)	(76)	—	(188,290)	—
Operating income (loss)	181,572	295,239	(17,243)	(76)	(188,290)	271,202
Other expense						
Interest expense, net	125,890	96,818	24	—	—	222,732
Loss on early extinguishments of debt	30,829	9,904	—	—	—	40,733
Other, net	396	2,959	321	—	—	3,676
Total other expense, net	157,115	109,681	345	—	—	267,141
Income (loss) from continuing operations before income taxes	24,457	185,558	(17,588)	(76)	(188,290)	4,061
Income tax benefit (provision)	22,777	(16,089)	(54)	—	—	6,634
Income (loss) from continuing operations, net of tax	47,234	169,469	(17,642)	(76)	(188,290)	10,695
Income from discontinued operations, net of tax	—	36,539	—	—	—	36,539
Net income (loss)	$47,234	$206,008	$(17,642)	$ (76)	$(188,290)	$47,234
Comprehensive income (loss)	$46,971	$205,745	$(17,642)	$ (76)	$(188,027)	$46,971

BOYD GAMING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015

Condensed Consolidating Statements of Cash Flows

	Year Ended December 31, 2017					
(In thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
Cash flows from operating activities						
Net cash from operating activities	$(82,632)	$515,465	$(19,172)	$ 254	$ 949	$414,864
Cash flows from investing activities						
Capital expenditures	(102,277)	(87,590)	(597)	—	—	(190,464)
Cash paid for acquisitions, net of cash received	(1,153)	—	—	—	—	(1,153)
Net activity with affiliates	—	(443,542)	—	—	443,542	—
Distributions from subsidiary	10,867	—	—	—	(10,867)	—
Advances pursuant to development agreement	—	—	(35,108)	—	—	(35,108)
Other investing activities	—	706	—	—	—	706
Net cash from investing activities	(92,563)	(530,426)	(35,705)	—	432,675	(226,019)
Cash flows from financing activities						
Borrowings under bank credit facility	958,000	—	—	—	—	958,000
Payments under bank credit facility	(1,119,485)	—	—	—	—	(1,119,485)
Debt financing costs, net	(3,430)	—	—	—	—	(3,430)
Net activity with affiliates	389,579	—	55,166	(254)	(444,491)	—
Distributions to parent	—	(10,475)	(392)	—	10,867	—
Share-based compensation activities, net	(7,711)	—	—	—	—	(7,711)
Shares repurchased and retired	(31,927)	—	—	—	—	(31,927)
Dividends paid	(11,286)	—	—	—	—	(11,286)
Other financing activities	590	(87)	—	—	—	503
Net cash from financing activities	174,330	(10,562)	54,774	(254)	(433,624)	(215,336)
Cash flows from discontinued operations						
Cash flows from operating activities	—	(514)	—	—	—	(514)
Cash flows from investing activities	—	36,247	—	—	—	36,247
Cash flows from financing activities	—	—	—	—	—	—
Net cash from discontinued operations	—	35,733	—	—	—	35,733
Net change in cash and cash equivalents	(865)	10,210	(103)	—	—	9,242
Cash and cash equivalents, beginning of period	1,212	189,364	3,286	—	—	193,862
Cash and cash equivalents, end of period	$347	$199,574	$3,183	$ —	$ —	$203,104

BOYD GAMING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015

Condensed Consolidating Statements of Cash Flows - continued

	Year Ended December 31, 2016					
(In thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
Cash flows from operating activities						
Net cash from operating activities	$(86,502)	$ 382,742	$ 7,837	$ —	$ (1,196)	$ 302,881
Cash flows from investing activities						
Capital expenditures	(42,840)	(116,834)	(684)	—	—	(160,358)
Cash paid for acquisitions, net of cash received	(592,703)	—	—	—	—	(592,703)
Net activity with affiliates	—	211,300	—	—	(211,300)	—
Distributions from subsidiary	9,150	—	—	—	(9,150)	—
Other investing activities	—	7,529	6,678	—	—	14,207
Net cash from investing activities	(626,393)	101,995	5,994	—	(220,450)	(738,854)
Cash flows from financing activities						
Borrowings under bank credit facility	2,039,175	237,000	—	—	—	2,276,175
Payments under bank credit facility	(1,466,362)	(899,750)	—	—	—	(2,366,112)
Proceeds from issuance of senior notes	750,000	—	—	—	—	750,000
Debt financing costs, net	(42,220)	—	—	—	—	(42,220)
Retirements of senior notes	(350,000)	(350,000)	—	—	—	(700,000)
Premium and consent fees paid	(15,750)	—	—	—	—	(15,750)
Net activity with affiliates	(199,398)	—	(12,877)	(221)	212,496	—
Distributions to parent	—	(9,000)	(150)	—	9,150	—
Share-based compensation activities, net	(1,295)	—	—	—	—	(1,295)
Other financing activities	(45)	—	—	—	—	(45)
Net cash from financing activities	714,105	(1,021,750)	(13,027)	(221)	221,646	(99,247)
Cash flows from discontinued operations						
Cash flows from operating activities	—	(27,796)	—	—	—	(27,796)
Cash flows from investing activities	—	598,057	—	—	—	598,057
Cash flows from financing activities	—	—	—	—	—	—
Net cash from discontinued operations	—	570,261	—	—	—	570,261
Net change in cash and cash equivalents	1,210	33,248	804	(221)	—	35,041
Cash and cash equivalents, beginning of period	2	156,116	2,482	221	—	158,821
Cash and cash equivalents, end of period	$ 1,212	$ 189,364	$ 3,286	$ —	$ —	$ 193,862

BOYD GAMING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015

Condensed Consolidating Statements of Cash Flows - continued

	Year Ended December 31, 2015					
(In thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
Cash flows from operating activities						
Net cash from operating activities	$102,080	$237,041	$(13,085)	$ (76)	$ (209)	$325,751
Cash flows from investing activities						
Capital expenditures	(48,591)	(82,392)	(187)	—	—	(131,170)
Net activity with affiliates	—	(66,691)	—	—	66,691	—
Distribution from subsidiary	11,200	—	—	—	(11,200)	—
Other investing activities	3,292	1,236	—	—	—	4,528
Net cash from investing activities	(34,099)	(147,847)	(187)	—	55,491	(126,642)
Cash flows from financing activities						
Borrowings under bank credit facility	1,033,500	345,500	—	—	—	1,379,000
Payments under bank credit facility	(1,211,200)	(425,150)	—	—	—	(1,636,350)
Proceeds from issuance of senior notes	750,000	—	—	—	—	750,000
Debt financing costs, net	(14,004)	—	—	—	—	(14,004)
Payments on retirements of long-term debt	(500,000)	(3)	(157,810)	—	—	(657,813)
Premium and consent fees paid	(24,246)	—	—	—	—	(24,246)
Net activity with affiliates	(105,720)	—	172,124	78	(66,482)	—
Distributions to parent	—	(11,100)	(100)	—	11,200	—
Share-based compensation activities, net	3,689	—	—	—	—	3,689
Net cash from financing activities	(67,981)	(90,753)	14,214	78	(55,282)	(199,724)
Cash flows from discontinued operations						
Cash flows from operating activities	—	14,095	—	—	—	14,095
Cash flows from investing activities	—	—	—	—	—	—
Cash flows from financing activities	—	—	—	—	—	—
Net cash from discontinued operations	—	14,095	—	—	—	14,095
Net change in cash and cash equivalents	—	12,536	942	2	—	13,480
Cash and cash equivalents, beginning of period	2	143,580	1,540	219	—	145,341
Cash and cash equivalents, end of period	$2	$156,116	$2,482	$ 221	$ —	$158,821

NOTE 16. RELATED PARTY TRANSACTIONS

Boyd Percentage Ownership

William S. Boyd, our Executive Chairman of the Board of Directors, together with his immediate family, beneficially owned approximately 27% of our outstanding shares of common stock as of December 31, 2017. As such, the Boyd family has the ability to significantly influence our affairs, including the election of members of our Board of

Directors and, except as otherwise provided by law, approving or disapproving other matters submitted to a vote of our stockholders, including a merger, consolidation or sale of assets. For each of the years ended December 31, 2017, 2016 and 2015, there were no related party transactions between the Company and the Boyd family other than compensation, including salary and equity incentives.

NOTE 17. SUBSEQUENT EVENTS

We have evaluated all events or transactions that occurred after December 31, 2017. During this period, up to the filing date, we did not identify any subsequent events, other than the payment of the cash dividend disclosed in Note 10, Stockholder's Equity and Stock Incentive Plans, the effects of which would require disclosure or adjustment to our financial position or results of operations.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no changes in or disagreements with accountants on accounting and financial disclosures during the two years in the period ended December 31, 2017.

ITEM 9A. Controls and Procedures

As of the end of the period covered by this Report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief 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 amended (the "Exchange Act"). Our disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this Report.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we include a report of management's assessment of the design and effectiveness of our internal controls as part of this Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Our independent registered public accounting firm also reported on the effectiveness of our internal controls over financial reporting. Management's report and the independent registered public accounting firm's attestation report are located below.

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

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of our internal control over financial reporting as of the end of the most recent fiscal year, December 31, 2017, based on the framework set forth in Internal Control - Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on our evaluation under the framework set forth in Internal Control - Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2017, the end of our most recent fiscal year.

Deloitte & Touche LLP, an independent registered public accounting firm, has issued an attestation report on our internal control over financial reporting as of December 31, 2017, which report follows below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Boyd Gaming Corporation and Subsidiaries:

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Boyd Gaming Corporation and Subsidiaries (the "Company") as of December 31, 2017, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects,effective internal control over financial reporting as of December 31, 2017, based on the criteria established in Internal Control — Integrated Framework (2013) issued by COSO.We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2017 of the Company and our report dated February 26, 2018 expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control over Financial Reporting

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 the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP
Las Vegas, Nevada
February 26, 2018

ITEM 9B. Other Information
None

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance
Information required by this item regarding the members of our board of directors and our audit committee, including our audit committee financial experts, is set forth under the captions Board Committees - Audit Committee, Director Nominees, and Section 16(a) Beneficial Ownership Reporting Compliance in our Definitive Proxy Statement to be filed in connection with our 2018 Annual Meeting of Stockholders and is incorporated herein by reference.

The following table sets forth the non-director executive officers of Boyd Gaming Corporation as of February 26, 2018:

Name	Age	Position
Brian A. Larson	62	Executive Vice President, Secretary and General Counsel
Josh Hirsberg	56	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
Theodore A. Bogich	63	Executive Vice President, Operations
Stephen S. Thompson	58	Executive Vice President, Operations
Anthony D. McDuffie	57	Vice President and Chief Accounting Officer (Principal Accounting Officer)

Brian A. Larson has served as our Executive Vice President and General Counsel since January 1, 2008 and as our Secretary since February 2001. Mr. Larson became our Senior Vice President and General Counsel in January 1998. He became our Associate General Counsel in March 1993 and Vice President-Development in June 1993.

Josh Hirsberg joined the Company as our Senior Vice President, Chief Financial Officer and Treasurer effective January 1, 2008 and was promoted to Executive Vice President effective January 13, 2016. Prior to his position with the Company, Mr. Hirsberg served as the Chief Financial Officer for EdgeStar Partners, a Las Vegas-based resort development concern. He previously held several senior-level finance positions in the gaming industry, including Vice President and Treasurer for Caesars Entertainment and Vice President, Strategic Planning and Investor Relations for Harrah's Entertainment.

Theodore A. Bogich was appointed an Executive Vice President, Operations on January 13, 2016. Mr. Bogich joined Boyd Gaming in 2004 as Vice President and General Manager of Sam’s Town Tunica, and was named Vice President and General Manager of Blue Chip Casino Hotel in Michigan City, Indiana, in 2007. He was promoted to Senior Vice President, Operations in 2012.

Stephen S. Thompson was appointed an Executive Vice President, Operations on January 13, 2016. Prior to his being appointed this position, Mr. Thompson served in numerous senior executive positions with Boyd Gaming since joining the Company in 1983, including Senior Vice President, Operations for Boyd Gaming’s Nevada region since 2004.

Anthony D. McDuffie has served as our Vice President and Chief Accounting Officer since March 2013. Prior to being appointed Vice President and Chief Accounting Officer, Mr. McDuffie, served as the Company's Director, Accounting Policy & Reporting, since October 2012. Mr. McDuffie previously served as Vice President, Finance and Controller of Pinnacle Airlines Corp. from October 2011 until September 2012. Prior to joining Pinnacle Airlines, Mr. McDuffie served as a financial accounting consultant to businesses in the manufacturing, health care and emergency air ambulance industries from May 2009 until October 2011. Mr. McDuffie served as Controller and Chief

Accounting Officer of Caesars Entertainment Corporation from November 2001 to May 2009.

Code of Ethics. We have adopted a Code of Business Conduct and Ethics ("Code of Ethics") that applies to each of our directors, executive officers and employees. Our Code of Ethics is posted on our website at www.boydgaming.com. Any waivers or amendments to our Code of Ethics will be posted on our website.

ITEM 11. Executive Compensation

The information required by this item is set forth under the captions Executive Officer and Director Compensation, Compensation and Stock Option Committee Interlocks and Insider Participation, and Compensation and Stock Option Committee Report in our Definitive Proxy Statement to be filed in connection with our 2018 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
The information required by this item is set forth under the captions Ownership of Certain Beneficial Owners and Management and Equity Compensation Plan Information in our Definitive Proxy Statement to be filed in connection with our 2018 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence
The information required by this item is set forth under the captions Transactions with Related Persons and Director Independence in our Definitive Proxy Statement to be filed in connection with our 2018 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 14. Principal Accounting Fees and Services
Information about principal accounting fees and services, as well as the audit committee's pre-approval policies appears under the captions Audit and Non-Audit Fees and Audit Committee Pre-Approval of Audit and Non-Audit Services in our Definitive Proxy Statement to be filed in connection with our 2018 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

1. Financial Statements

Financial statements of the Company (including related notes to consolidated financial statements) filed as part of this report are listed below:

2. Financial Statement Schedules

All schedules have been omitted because they are not applicable, not required or the information required to be set forth therein is included in Consolidated Financial Statements or Notes thereto included in this Report.

3. Exhibit List

Exhibit Number	Description of Exhibit	Method of Filing
2.1	Agreement and Plan of Merger, dated as of May 16, 2012, entered into by and among, Boyd Gaming Corporation, Boyd Acquisition II, LLC, Boyd Acquisition Sub, LLC, Peninsula Gaming Partners, LLC and Peninsula Gaming, LLC.	Incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the SEC on May 16, 2012.
2.2	Agreement and Plan of Merger entered into as of April 21, 2016, by and among Boyd Gaming Corporation, Boyd TCII Acquisition, LLC, and ALST Casino Holdco, LLC. †	Incorporated by reference to Exhibit 2.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.
2.3	Membership Interest Purchase Agreement entered into as of April 25, 2016, by and among Boyd Gaming Corporation, The Cannery Hotel and Casino, LLC, Nevada Palace, LLC, and Cannery Casino Resorts, LLC. †	Incorporated by reference to Exhibit 2.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.
2.4	Equity Purchase Agreement entered into as of May 31, 2016, by and among MGM Resorts International, Boyd Atlantic City, Inc., and Boyd Gaming Corporation. †	Incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the SEC on June 2, 2016.

2.5	First amendment to Equity Purchase Agreement entered into as of July 19, 2016, by and among MGM Resorts International, Boyd Atlantic City, Inc., and Boyd Gaming Corporation.	Incorporated by reference to Exhibit 2.2 of the Registrant's Current Report on Form 8-K filed with the SEC on August 5, 2016.

Exhibit Number	Description of Exhibit	Method of Filing
2.6	First Amendment to Agreement and Plan of Merger, dated as of September 26, 2016, by and among Boyd Gaming Corporation, Boyd TCII Acquisition, LLC, and ALST Casino Holdco, LLC.	Incorporated by reference to Exhibit 2.2 of the Registrant's Current Report on Form 8-K filed with the SEC on September 27, 2016.
2.7	First Amendment to Membership Interest Purchase Agreement, dated October 28, 2016, by and among Boyd Gaming Corporation, Cannery Casino Resorts, LLC, the Cannery Hotel and Casino, LLC, and Nevada Palace, LLC.	Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the SEC on November 3, 2016.
2.8*	Membership Interest Purchase Agreement, made and entered into on December 17, 2017, by and among Boyd Gaming Corporation, Boyd TCIV, LLC, Penn National Gaming, Inc., and, solely following the execution and delivery of a joinder to the Purchase Agreement, Pinnacle Entertainment, Inc. and Pinnacle MLS, LLC.	Incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the SEC on December 17, 2017.
2.9*	Master Lease Commitment and Rent Allocation Agreement, made and entered into as of December 17, 2017, by and among Boyd Gaming Corporation, Boyd TCIV, LLC, Penn National Gaming, Inc., Gaming and Leisure Properties, Inc., and Gold Merger Sub, LLC.	Incorporated by reference to Exhibit 2.2 of the Registrant's Current Report on Form 8-K filed with the SEC on December 17, 2017.
2.10*	Agreement and Plan of Merger, made and entered into on December 20, 2017, by and among Boyd Gaming Corporation, Boyd TCV, LP, a wholly owned subsidiary of Boyd, Valley Forge Convention	Incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the SEC on December 17, 2017.
2.11	Amendment No. 1 to Membership Interest Purchase Agreement, dated as of December 17, 2017, by and among Boyd Gaming Corporation, Boyd TCIV, LLC, Penn National Gaming, Inc., and solely following the execution of a joinder, Pinnacle Entertainment, Inc., and Pinnacle MLS, LLC.	Filed electronically herewith.
3.1	Amended and Restated Articles of Incorporation of the Registrant.	Incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K, filed with the SEC on May 24, 2006.
3.2	Amended and Restated By-Laws of Boyd Gaming Corporation, effective October 20, 2016.	Incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on October 26, 2016.
4.1	Form of Indenture relating to senior debt securities	Incorporated by reference to Exhibit 4.1 of the Registrant's Automatic Shelf Registration Statement on Form S-3ASR dated May 1, 2015.
4.2	Form of Indenture relating to subordinated debt securities	

		Incorporated by reference to Exhibit 4.2 of the Registrant's Automatic Shelf Registration Statement on Form S-3ASR dated May 1, 2015.
4.3	Indenture governing the Company's 9.0% Senior Notes due 2020, dated as of June 8, 2012, among the Company, the Guarantors party thereto, and U.S. Bank National Association, as trustee.	Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed with the SEC on June 13, 2012.

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Exhibit Number	Description of Exhibit	Method of Filing
4.4	First Supplemental Indenture, relating to the 9.0% Senior Notes due 2020, dated as of August 14, 2013 among the Company, the Guarantors party thereto, and U.S. Bank National Association, as Trustee, to that certain Indenture dated as of June 8, 2012, among the Company, the Guarantors party thereto, and U.S. Bank National Association, as trustee.	Incorporated by reference to the Registrant’s Current Report on Form 8-K filed with the SEC on August 19, 2013.
4.5	Indenture governing Boyd Acquisition Sub, LLC's and Boyd Acquisition Finance Corp.'s 8.375% Senior Notes due 2018, dated August 16, 2012, by and among the Issuers and U.S. Bank National Association, as trustee.	Incorporated by reference to Exhibit 99.2 of the Registrant's Current Report on Form 8-K filed August 21, 2012.
4.6	Form of Indenture relating to senior debt securities between the Company, Guarantors party thereto and Wilmington Trust, National Association, as Trustee.	Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed May 8, 2015.
4.7	First Supplemental Indenture, the Company's 6.875% Senior Notes due 2023, dated May 21, 2015, by and among the Company, Guarantors party thereto and Wilmington Trust, National Association, as Trustee, to that certain Indenture dated May 21, 2015, by and among the Company, Guarantors party thereto and Wilmington Trust, National Association, as Trustee.	Incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed May 21, 2015.
4.8	Indenture governing the Company's 6.375% Senior Notes due 2026, dated March 28, 2016, by and among the Company, the guarantors named therein and Wilmington Trust, National Association, as trustee.	Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed with the SEC on March 29, 2016.
4.9	Form of 6.375% Senior Note.	Incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed with the SEC on March 29, 2016.
4.10	Registration Rights Agreement, dated March 28, 2016, by and among the Company, the guarantors named therein and Deutsche Bank Securities Inc., on behalf of itself and as representative of the several initial purchasers.	Incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed with the SEC on March 29, 2016.
4.11	Second Supplemental Indenture dated December 15, 2016 governing the Company's 6.875% senior notes due 2023, by and among the Company, the guarantors named therein and Wilmington Trust, National Association, as trustee.	Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed with the SEC on December 20, 2016.
4.12		

	First Supplemental Indenture dated December 15, 2016 governing the Company's 6.375% senior notes due 2026, by and among the Company, the guarantors named therein and Wilmington Trust, National Association, as trustee.	Incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed with the SEC on December 20, 2016.
4.13	Third Supplemental Indenture dated March 7, 2017 governing the Company's 6.875% senior notes due 2023, by and among the Company, the guarantors named therein and Wilmington Trust, National Association, as trustee.	Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed with the SEC on March 7, 2017.

Exhibit Number	Description of Exhibit	Method of Filing
4.14	Second Supplemental Indenture dated March 7, 2017 governing the Company's 6.375% senior notes due 2026, by and among the Company, the guarantors named therein and Wilmington Trust, National Association, as trustee.	Incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed with the SEC on March 7, 2017.
10.1	Ninety-Nine Year Lease dated June 30, 1954, by and among Fremont Hotel, Inc., and Charles L. Ronnow and J.L. Ronnow, and Alice Elizabeth Ronnow	Incorporated by reference to the Registration Statement on Form S-1, File No. 33-51672, of California Hotel and Casino and California Hotel Finance Corporation, which was declared effective on November 18, 1992.
10.2	Lease Agreement dated October 31, 1963, by and between Fremont Hotel, Inc. and Cora Edit Garehime	Incorporated by reference to the Registration Statement on Form S-1, File No. 33-51672, of California Hotel and Casino and California Hotel Finance Corporation, which was declared effective on November 18, 1992.
10.3	Lease Agreement dated December 31, 1963, by and among Fremont Hotel, Inc., Bank of Nevada and Leon H. Rockwell, Jr.	Incorporated by reference to the Registration Statement on Form S-1, File No. 33-51672, of California Hotel and Casino and California Hotel Finance Corporation, which was declared effective on November 18, 1992.
10.4	Lease Agreement dated June 7, 1971, by and among Anthony Antonacci, Margaret Fay Simon and Bank of Nevada, as Co-Trustees under Peter Albert Simon's Last Will and Testament, and related Assignment of Lease dated February 25, 1985 to Sam-Will, Inc. and Fremont Hotel, Inc.	Incorporated by reference to the Registration Statement on Form S-1, File No. 33-51672, of California Hotel and Casino and California Hotel Finance Corporation, which was declared effective on November 18, 1992.
10.5	Lease Agreement dated July 25, 1973, by and between CH&C and William Peccole, as Trustee of the Peter Peccole 1970 Trust	Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended June 30, 1995.
10.6	Lease Agreement dated July 1, 1974, by and among Fremont Hotel, Inc. and Bank of Nevada, Leon H. Rockwell, Jr. and Margorie Rockwell Riley	Incorporated by reference to the Registration Statement on Form S-1, File No. 33-51672, of California Hotel and Casino and California Hotel Finance Corporation, which was declared effective on November 18, 1992.
10.7	Ninety-Nine Year Lease, dated December 1, 1978, by and between Matthew Paratore, and George W. Morgan and LaRue Morgan, and related Lease Assignment dated November 10, 1987, to Sam-Will, Inc., d.b.a. Fremont Hotel and Casino	Incorporated by reference to the Registration Statement on Form S-1, File No. 33-51672, of California Hotel and Casino and California Hotel Finance Corporation, which was declared effective on November 18, 1992.
10.8	Form of Indemnification Agreement	Incorporated by reference to the Registrant's Registration Statement on Form S-1, File No.

		33-64006, which was declared effective on October 15, 1993.
10.9	401(k) Profit Sharing Plan and Trust	Incorporated by reference to the Registration Statement on Form S-1, File No. 33-51672, of California Hotel and Casino and California Hotel Finance Corporation, which was declared effective on November 18, 1992.

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Exhibit Number	Description of Exhibit	Method of Filing
10.10*	2000 Executive Management Incentive Plan (incorporated by reference to Appendix A of the Registrant's Definitive Proxy Statement filed with the SEC on April 21, 2000).	Incorporated by reference to Appendix A of the Registrant's Definitive Proxy Statement filed with the SEC on April 21, 2000.
10.11*	Annual Incentive Plan	Incorporated by reference to Exhibit 10.29 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002.
10.12*	Form of Stock Option Award Agreement pursuant to the 2002 Stock Incentive Plan	Incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.
10.13*	Form of Restricted Stock Unit Agreement and Notice of Award pursuant to the 2002 Stock Incentive Plan	Incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.
10.14*	The Boyd Gaming Corporation Amended and Restated Deferred Compensation Plan for the Board of Directors and Key Employees	Incorporated by reference to Exhibit 10.39 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
10.15*	Amendment Number 1 to the Amended and Restated Deferred Compensation Plan	Incorporated by reference to Exhibit 10.40 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
10.16*	Amendment Number 2 to the Amended and Restated Deferred Compensation Plan	Incorporated by reference to Exhibit 10.41 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
10.17*	Amendment Number 3 to the Amended and Restated Deferred Compensation Plan	Incorporated by reference to Exhibit 10.42 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
10.18*	Amendment Number 4 to the Amended and Restated Deferred Compensation Plan	Incorporated by reference to Exhibit 10.43 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
10.19*	Form of Stock Option Award Agreement Under the Registrant's Directors' Non-Qualified Stock Option Plan	Incorporated by reference to Exhibit 10.48 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.
10.20*	Boyd Gaming Corporation's 2002 Stock Incentive Plan (as amended and restated on May 15, 2008)	Incorporated by reference to Appendix A of the Registrant's Definitive Proxy Statement filed with the SEC on April 2, 2008.
10.21*	Amendment Number 5 to the Amended and Restated Deferred Compensation Plan	Incorporated by reference to Exhibit 10.35 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005.

10.22*	Amended and Restated 2000 Executive Management Incentive Plan	Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, filed with the SEC on May 24, 2006.
10.23*	Amended and Restated 2002 Stock Incentive Plan	Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K, filed with the SEC on May 24, 2006.

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Exhibit Number	Description of Exhibit	Method of Filing
10.24*	Form of Award Agreement for Restricted Stock Units under 2002 Stock Incentive Plan for Non-Employee Directors	Incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
10.25*	Form of Award Agreement for Restricted Stock Units under the 2002 Stock Incentive Plans	Incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed with the SEC on May 24, 2006.
10.26*	Form of Career Restricted Stock Unit Award Unit Agreement under the 2002 Stock Incentive Plan	Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the SEC on December 13, 2006.
10.27*	Form of Restricted Stock Unit Agreement and Notice of Award Pursuant to the 2002 Stock Incentive Plan	Incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.
10.28*	Change in Control Severance Plan for Tier I, II and III Executives	Incorporated by reference to Exhibit 10.46 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2006.
10.29	Form of Performance Share Unit Agreement and Notice of Award Pursuant to the 2002 Stock Incentive Plan	Incorporated by reference to Exhibit 10.49 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011.
10.30	Offer to Purchase Real Estate, Acceptance and Lease, dated September 27, 2006, between Diamond Jo, LLC and Dubuque County Historical Society	Incorporated by reference to Exhibit 10.1 of Peninsula Gaming, LLC's Quarterly Report on Form 10-Q filed November 14, 2006.
10.31	Closing Agreement, dated September 27, 2006, between Diamond Jo, LLC and Dubuque County Historical Society	Incorporated by reference to Exhibit 10.2 of Peninsula Gaming, LLC's Quarterly Report on Form 10-Q filed November 14, 2006.
10.32	Real Estate Ground Lease, dated September 27, 2006, between Diamond Jo, LLC and Dubuque County Historical Society	Incorporated by reference to Exhibit 10.3 of Peninsula Gaming, LLC's Quarterly Report on Form 10-Q filed November 14, 2006.
10.33	Minimum Assessment Agreement, dated October 1, 2007, among Diamond Jo, LLC, the City of Dubuque, Iowa and the City Assessor of the City of Dubuque, Iowa	Incorporated by reference to Exhibit 10.63 of Peninsula Gaming, LLC's Annual Report on Form 10-K filed

		March 28, 2008.
10.34	Amended and Restated Port of Dubuque Public Parking Facility Development Agreement, dated October 1, 2007, between the City of Dubuque, Iowa and Diamond Jo, LLC	Incorporated by reference to Exhibit 10.65 of Peninsula Gaming, LLC's Annual Report on Form 10-K filed March 28, 2008.
10.35	Lottery Gaming Facility Management Contract, dated October 19, 2010	Incorporated by reference to Exhibit 10.2 of Peninsula Gaming, LLC's Current Report on Form 8-K filed February 4, 2011.
10.36	Third Amended and Restated Credit Agreement dated as of August 14, 2013 among the Company certain financial institutions, Bank of America, N.A., as administrative agent and letter of credit issuer, and Wells Fargo Bank, National Association, as swing line lender.	Incorporated by reference from the Registrant's Current Report on Form 8-K dated August 14, 2013.

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Exhibit Number	Description of Exhibit	Method of Filing
10.37	Separation Agreement and Release, Dated September 19, 2014, by and between Paul J. Chakmak and the Registrant.	Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 10-Q for the quarter ended September 30, 2014.
10.38	Amendment No. 1 and Joinder Agreement, dated as of September 15, 2016, among the Company, certain financial institutions, Bank of America, N.A., as administrative agent and letter of credit issuer, and Wells Fargo Bank, National Association, as swing line lender.	Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the SEC on September 19, 2016.
10.39*	2012 Stock Incentive Plan (As amended and restated effective May 17, 2012) (incorporated by reference to Appendix A of the Registrant's Definitive Proxy Statement filed with the SEC on April 2, 2012).	Incorporated by reference to Appendix A of the Registrant's Definitive Proxy Statement filed with the SEC on April 2, 2012.
10.40†	Real Estate Ground Lease, dated September 22, 2006, as Amended between NP Land LLC and Nevada Palace, LLC	Incorporated by reference to Exhibit 10.40 of the Registrant's Current Report on Form 10-K filed with the SEC on February 21, 2017.
10.41	Amendment No. 2 and Refinancing Amendment dated March 29, 2017, to the Third Amended and Restated Credit Agreement, dated as of August 14, 2013.	Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the SEC on March 31, 2017.
12	Ratio of Earnings to Fixed Charges.	Filed electronically herewith.
21.1	Subsidiaries of the Registrant.	Filed electronically herewith.
23.1	Consent of Deloitte & Touche LLP.	Filed electronically herewith.
24	Power of Attorney (included in Part IV to this Annual Report on Form 10-K).	Filed electronically herewith.
31.1	Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act Rule 13a-14(a).	Filed electronically herewith.
31.2	Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act Rule 13a-14(a).	Filed electronically herewith.
32.1	Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act Rule 13a - 14(b) and 18 U.S.C. § 1350.	Filed electronically herewith.
32.2	Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act Rule 13a - 14(b) and 18 U.S.C. § 1350.	Filed electronically herewith.
99.1	Governmental Gaming Regulations	Filed electronically herewith.

Exhibit Number	Description of Exhibit	Method of Filing
101	The following materials from Boyd Gaming Corporation's Annual Report on Form 10-K for the year ended December 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2017 and December 31, 2016; (ii) Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015; (iii) Consolidated Statement of Changes in Stockholders' Equity for the years ended December 31, 2017; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015; and (vi) Notes to Consolidated Financial Statements. ***	Filed electronically herewith.

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* Management contracts or compensatory plans or arrangements.

** Certain portions of this exhibit have been granted confidential treatment by the Securities and Exchange Commission.

*** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

† Exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company hereby undertakes to furnish supplementally copies of any of the omitted schedules upon request by the SEC.

ITEM 16. Form 10-K Summary

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 26, 2018.

BOYD GAMING CORPORATION

By: /s/ Anthony D. McDuffie
Anthony D. McDuffie
Vice President and Chief Accounting Officer
(Principal Accounting Officer)

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POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Keith E. Smith, Josh Hirsberg and Anthony D. McDuffie, and each of them, his attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

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

Signature	Title	Date
/s/ WILLIAM S. BOYD William S. Boyd	Executive Chairman of the Board of Directors	February 26, 2018
/s/ MARIANNE BOYD JOHNSON Marianne Boyd Johnson	Vice Chairman of the Board of Directors, Executive Vice President and Director	February 26, 2018
/s/ KEITH E. SMITH Keith E. Smith	President, Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2018
/s/ JOSH HIRSBERG Josh Hirsberg	Executive Vice President, Chief Financial Officer and Treasurer	February 26, 2018
/s/ WILLIAM R. BOYD William R. Boyd	Vice President and Director	February 26, 2018
/s/ JOHN BAILEY John Bailey	Director	February 26, 2018
/s/ ROBERT L. BOUGHNER Robert L. Boughner	Director	February 26, 2018
/s/ RICHARD FLAHERTY Richard Flaherty	Director	February 26, 2018
/s/ CHRISTINE J. SPADAFOR Christine J. Spadafor	Director	February 26, 2018
/s/ PETER M. THOMAS Peter M. Thomas	Director	February 26, 2018
/s/ PAUL WHETSELL Paul Whetsell	Director	February 26, 2018
/s/ VERONICA J. WILSON	Director	February 26, 2018

Veronica J. Wilson

/s/ ANTHONY D. MCDUFFIE Anthony D. McDuffie	Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 26, 2018