COGENT COMMUNICATIONS GROUP INC
Form PRER14C
February 06, 2003

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SCHEDULE 14C INFORMATION

**Information Statement Pursuant to Section 14(c) of
the Securities Exchange Act of 1934**

Check the appropriate box:
ý Preliminary Information Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))**
o Definitive Information Statement

COGENT COMMUNICATIONS GROUP, INC.

(Name of Registrant As Specified In Its Charter)

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(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

1015 31st Street N.W.
Washington, D.C. 20007
(202) 295-4200

INFORMATION STATEMENT

This Information Statement is being furnished to the stockholders of Cogent Communications Group, Inc., a Delaware corporation (the "Company") in connection with the proposed amendment and restatement of the Company's Second Amended and Restated Certificate of Incorporation. This proposal is described in more detail in this Information Statement. It is anticipated that this Information Statement will be first mailed to stockholders on or about February 10, 2003.

WE ARE NOT ASKING YOU FOR A PROXY AND
YOU ARE REQUESTED NOT TO SEND A PROXY.

Consent Date; Outstanding Shares; Voting Rights

It is anticipated that on February 9, 2003 (the "Consent Date"), certain of the Company's stockholders who hold stock as of that date will act by written consent to approve the proposal described in this Information Statement. It is anticipated that as of the Consent Date, the Company's issued and outstanding capital stock will consist of:

3,483,838 shares of common stock, par value $0.001 per share (the "Common Stock"), which was held by approximately 302 holders of record;

26,000,000 shares of Series A Participating Convertible Preferred Stock, par value $0.001 per share (the "Series A Preferred Stock");

19,370,223 shares of Series B Participating Convertible Preferred Stock, par value $0.001 per share (the "Series B Preferred Stock"); and

49,773,402 shares of Series C Participating Convertible Preferred Stock, par value $0.001 per share (the "Series C Preferred Stock" and together with the Series A Preferred Stock and Series B Preferred Stock, the "Existing Preferred Stock").

Holders of shares of our Common Stock and Existing Preferred Stock are entitled to the following number of votes on all matters on which they are entitled to a vote:

holders of Common Stock are entitled to one vote for each share held;

holders of Series A Preferred Stock are entitled to one vote for every ten shares held;

holders of Series B Preferred Stock are entitled to one vote for every 7.7048 shares held; and holders of Series C Preferred Stock are entitled to one vote for every ten shares held.

Dissenters' Rights of Appraisal

Under the laws of the State of Delaware and the Company's charter documents, stockholders will not have the right to dissent and obtain payment for their shares in connection with the proposal described in this Information Statement.

Note Regarding Share and Per Share Data

In connection with the completion of the merger of Allied Riser Communications Corporation ("Allied Riser") with a subsidiary of the Company, which is discussed in the footnotes to the financial statements accompanying this Information Statement, the Company completed a ten-for-one reverse stock split with respect to its common stock. All share and per-share information contained in and accompanying this Information Statement reflects the occurrence of that reverse stock split.

PROPOSAL NO. 1
AMENDMENT AND RESTATEMENT OF THE COMPANY'S CERTIFICATE OF INCORPORATION

It is anticipated that in January, 2003, the board of directors will unanimously adopt, subject to stockholder approval, the Third Amended and Restated Certificate of Incorporation of the Company (the "Amended and Restated Charter"). It is anticipated that on February 9, 2003, stockholders holding capital stock of the Company representing a number of votes sufficient to approve the proposal will consent to approve the adoption of the Amended and Restated Charter. The Amended and Restated Charter will increase the number of authorized shares of the Company's Preferred Stock from 98,173,643 shares to 106,276,229 shares by authorizing 8,102,586 additional shares of preferred stock, 1,250,000 of which will be authorized but unissued and undesignated Preferred Stock, 3,426,293 of which will be designated Series D Participating Convertible Preferred Stock (the "Series D Preferred Stock") and 3,426,293 of which will be designated Series E Participating Convertible Preferred Stock (the "Series E Preferred Stock, and together with the Series D Preferred Stock, the "Additional Preferred Stock"). The Company has no current plan, proposal or arrangement, written or otherwise, to issue the authorized but unissued and undesignated Preferred Stock.

The Additional Preferred Stock to be authorized by adoption of the Amended and Restated Charter will have rights and preferences similar to the Existing Preferred Stock as described more fully below. Adoption of the Amended and Restated Charter and issuance of the Preferred Stock will not affect the rights of the holders of currently outstanding Common Stock and the Existing Preferred Stock of the Company, except for effects incidental to increasing the number of shares of Preferred Stock outstanding, such as dilution of the earnings per share and voting rights of current holders of Common Stock and the Existing Preferred Stock and the issuance of additional shares with liquidation rights senior to the Common Stock. The Amended and Restated Charter will become effective upon filing of the Amended and Restated Charter with the Secretary of State of the State of Delaware immediately prior to the consummation of the Settlement Agreement and the Exchange Agreement, as described below.

Background

On December 12, 2001, Allied Riser announced that certain holders of its 7.50% convertible subordinated notes due 2007 filed notices as a group with the Securities and Exchange Commission on Schedule 13D including copies of documents indicating that such group had filed suit in Delaware Chancery Court on December 6, 2001 against Allied Riser and its board of directors (the "Noteholder Litigation"). The suit alleges, among other things, breaches of fiduciary duties and default by Allied Riser under the indenture related to the notes, and requested injunctive relief to prohibit Allied Riser's merger with the Company. The plaintiffs amended their complaint on January 11, 2002 and subsequently served it on Allied Riser. On January 28, 2002, the Court held a hearing on a motion by the plaintiffs to preliminarily enjoin the merger. On January 31, 2002, the Court issued a Memorandum Opinion denying that motion. On July 23, 2002, the plaintiffs filed a motion for partial summary judgment in which they alleged that the merger was a "change of control" as defined by the indenture governing the Allied Riser notes. On November 7, 2002, the Court issued a ruling denying that motion. Instead, the Court determined that there had not been a "change of control," as defined in the indenture. This decision may be appealed by the plaintiffs.

On March 27, 2002, certain holders of the Allied Riser notes filed an involuntary bankruptcy petition under Chapter 7 of the United Stated Bankruptcy Code against Allied Riser in United States Bankruptcy Court for the Northern District of Texas, Dallas Division. Three of the four petitioners are plaintiffs in the Delaware Chancery Court case described above. Petitioners contend that the acquisition of Allied Riser was a change of control that entitled them to declare the notes were accelerated and are now due and payable. The petition does not name the Company as a party. Management notes, however that pursuant to the terms of the supplemental indenture related to the notes, the Company is a co-obligor of the notes. On June 11, 2002, the Bankruptcy Court Judge ruled in Allied Riser's favor stating that the involuntary bankruptcy petition would be dismissed. On August 8, 2002, the judge issued a written order dismissing the petition.

Allied Riser has timely made all interest and principal payments on the notes to date.

Proposed Settlement of Noteholder Litigation

In order to end the distraction to management and diversion of resources caused by the actions of certain of the holders of the Allied Riser notes, including specifically the Noteholder Litigation, the Company determined in November of 2002 to attempt to reach a settlement with the noteholders who are party to the Noteholder Litigation. The Company entered into discussions with these noteholders which resulted in the Company, Allied Riser and the noteholders entering into a non-binding letter agreement relating to the settlement of the Noteholder Litigation and the mutual release of the claims by the noteholders, the Company, Allied Riser and certain former directors of Allied Riser. Pursuant to the terms of the letter agreement, the Company and Allied Riser, in consideration of the settlement of the Noteholder Litigation, agreed to exchange shares of Additional Preferred Stock and cash with the noteholders in return for their Allied Riser notes. The Company also agreed to reimburse the noteholders for their legal expenses in connection with the settlement in an amount up to $100,000.

In order to consummate the settlement agreed to by these parties, the Company, Allied Riser and the holders of $106,789,000 in face value of the Allied Riser notes will enter into an Exchange Agreement, a Settlement Agreement and an Escrow Agreement. Pursuant to the Exchange Agreement, the Allied Riser noteholders will surrender to Allied Riser all of the notes that they hold, including accrued and unpaid interest thereon, in exchange for an aggregate cash payment by Allied Riser in the amount of $4,997,725 and an aggregate 3,426,293 shares of Series D Preferred Stock and 3,426,293 shares of Series E Preferred Stock.

Pursuant to the Settlement Agreement, the Allied Riser noteholders will cause the Noteholder Litigation to be dismissed with prejudice and will deliver to the Company, Allied Riser and certain former directors of Allied Riser a general release in exchange for an aggregate cash payment by the Company of $4,880,256 and a general release from the Company, Allied Riser and certain former Allied Riser directors.

The consummation of the transactions contemplated by the Exchange Agreement and the Settlement Agreement will be subject to the satisfaction of normal and customary conditions.

Pursuant to the Escrow Agreement, the Company and Allied Riser will deposit with an escrow agent the aggregate cash payment in respect of the note exchange, the aggregate cash payment in respect of the settlement of the Noteholder Litigation, and a copy of the general release executed by the Company, Allied Riser and the former Allied Riser directors named in the Noteholder Litigation. The Allied Riser noteholders will deposit with the escrow agent the Allied Riser notes and executed copies of the general release executed by each noteholder. Upon delivery of the shares of Additional Preferred Stock, the escrow agent will be obligated to release the Allied Riser notes and a fully executed general release to the Company and Allied Riser, and the cash payment in respect of the Allied Riser note exchange, the cash payment in respect of the settlement of the Noteholder Litigation and a fully executed general release to the Allied Riser noteholders.

Terms of Series D Participating Convertible Preferred Stock and Series E Participating Convertible Preferred Stock

The complete designation of rights and preferences of the Additional Preferred Stock is set forth in the Amended and Restated Charter, and is attached hereto as Appendix A. The Series D Preferred Stock will be pari-passu in all economic respects, including liquidation preference, rights to dividends,

conversion, adjustments and dilution protection, to the Series C Preferred Stock. Series E Preferred Stock will be pari-passu in all economic respects to the Series C Preferred Stock except with respect to liquidation preference in which case the Series E Preferred Stock shall be pari passu with the Series A Preferred Stock and the Series B Preferred Stock. A summary of certain of the rights and preferences of the Additional Preferred Stock is set forth below.

Dividends

The holders of the Series D Preferred Stock and Series E Preferred Stock shall be entitled to receive noncumulative dividends *pari passu* with the holders of the Series C Preferred Stock and in preference to any dividend on any other shares of the Company's capital stock at the rate of 8% of the initial liquidation value per annum, when and as declared by the board of directors of the Company. The initial liquidation value for the Series D Preferred Stock and the Series E Preferred Stock shall be $1.2467 per share.

Conversion

Both the Series D Preferred Stock and Series E Preferred Stock may be converted at the election of it holder, at any time, into shares of Common Stock. The initial conversion rate shall be the same as the conversion rate of the Series C Preferred Stock and subject to adjustment as provided in the paragraph below (relating to antidilution). The Series D Preferred Stock and Series E Preferred Stock shall be automatically converted into Common Stock, at the then applicable conversion price (i) in the event that the holders of at least two-thirds of the outstanding Preferred Stock consent to such conversion and all shares of Preferred Stock are then converted and holders of Series D Preferred Stock and Series E Preferred Stock receive identical Common Stock (including with respect to registration under the Securities Act of 1933 as amended) as all other holders of the Preferred Stock or (ii) upon the closing of a firmly underwritten public offering of shares of Common Stock of the Company at an aggregated pre-money valuation of at least $500 million and for a total offering of not less than $50 million (before deduction of underwriters commissions and expenses).

Antidilution

The conversion price of the Series D Preferred Stock and Series E Preferred Stock will be subject to adjustment to reduce dilution in the event that the Company issues additional equity securities (other than shares reserved as employee shares and other customary exclusions) at a purchase price less than the applicable conversion price. In such case, the applicable conversion price shall be adjusted so that it is equal to the purchase price of such additional equity securities. The conversion price will also be subject to proportional adjustment for stock splits, stock dividends, recapitalizations and the like.

Voting Rights

The Series D Preferred Stock and the Series E Preferred Stock and other classes of the Preferred Stock will vote together with the Common Stock and not as a separate class except as required by law. Each share of Series D Preferred Stock and Series E Preferred Stock shall have a number of votes equal to the number of shares of Common Stock then issuable upon conversion of such share of Series D Preferred Stock or Series E Preferred Stock.

Liquidation Preference; Participation

Upon any dissolution, liquidation, or winding up of the Company, the holders of outstanding shares of the Series D Preferred Stock and the Series E Preferred Stock will be entitled to receive, out of the assets of the Company remaining after all of the Company's debts and liabilities have been paid

or otherwise provided for, but before any payments have been made to the holders of Common Stock or any other class or series of capital stock of the Company ranking junior in preference to the Series D Preferred Stock and the Series E Preferred Stock, an amount equal to $1.2467 per share (the "Series E Original Purchase Price") in the case of the Series E Preferred Stock, plus interest accruing on the Series E Original Purchase Price from the date the Series E Preferred Stock was issued through the date of such payment at an annual rate of interest equal to the three month London Interbank Offered Rate, plus one hundred and fifty (150) basis points and an amount equal to the greater of (1) $1.2467 per share (the "Series D Original Purchase Price") plus interest accruing on the Series D Original Purchase Price from the issue date of the Series D Preferred Stock through the date of such payment at an annual rate of interest equal to the three month London Interbank Offered Rate, plus one hundred and fifty (150) basis points, or (2) $2.0091 per share.

After payment has been made in full to the holders of Preferred Stock of their respective liquidation preferences outlined above and subject to certain adjustments, all remaining assets of the Company available for distribution shall be distributed ratably to the holders of the Preferred Stock (on an as-converted-to-common-stock basis) and the holders of the Common Stock until, with respect to the Series D Preferred Stock and the Series E Preferred Stock, such time, if ever, as the amount distributed pursuant to the previous paragraph plus the amount distributed pursuant to the provisions of this paragraph equals, with respect to each outstanding share of Series D Preferred Stock and Series E Preferred Stock, $3.7401.

Board Representation

The holders of Series D Preferred Stock and Series E Preferred Stock will have the right to vote for election of directors but will not have any contractual right to nominate or otherwise designate any members to the Company's board of directors.

Registration Rights Agreement and Stockholder Agreement

The holders of the Series D Preferred Stock and Series E Preferred Stock will enter into a Second Amended and Restated Registration Rights Agreement, by and among the Company and the holders of the Existing Preferred Stock, which will provide for, among other things, registration rights with respect to common stock issued to the holders of the Company's Preferred Stock upon conversion of shares of Preferred Stock. The holders of the Series D Preferred Stock and Series E Preferred Stock will become parties to the Company's existing Amended and Restated Stockholders Agreement, dated October 16, 2001, by execution of an instrument of accession.

Dilutive Effect on Holders of Common Stock

Upon the issuance of the Series D Preferred Stock and the Series E Preferred Stock, the equity interests of our existing common stockholders and preferred stockholders, as a percentage of the total number of shares of the Company's Common Stock assuming conversion of the Preferred Stock, will be diluted.

	Percentage of Outstanding Common Stock Owned (Assuming Conversion of Preferred Stock)	
Holder	Before Issuance of Additional Preferred Stock	After Issuance of Additional Preferred Stock
Common stockholders	25.7%	24.4%
Existing preferred stockholders	74.3%	70.8%
New preferred stockholders		4.8%

Additionally, as a result of the issuance of the Series D Preferred Stock and the Series E Preferred Stock, in the event of any dissolution, liquidation, or winding up of the Company, at least $6,884,000

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will be paid in cash to the holders of the Series D Preferred Stock and at least $4,272,000 plus accrued interest will be paid in cash to the holders of the Series E Preferred Stock before any payment is made to the holders of Common Stock.

Vote Required

The affirmative vote of the holders of a majority of the shares of Common Stock and Existing Preferred Stock (on an as-converted-to-common-stock-basis), voting as a single class, is required to approve the adoption of the Amended and Restated Charter. In addition, the affirmative vote of two-thirds of the shares of the Existing Preferred Stock is required to approve the adoption of the Amended and Restated Charter and the issuance of the Additional Preferred Stock. Stockholders holding at least a majority of the shares of Common Stock and Existing Preferred Stock (on an as-converted-to-common-stock-basis), voting as a single class, and the stockholders holding at least two-thirds of the shares of the Existing Preferred Stock will have acted by written consent to approve the adoption of the Amended and Restated Charter and the issuance of the Additional Preferred Stock.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of shares of the Company's capital stock as of January 15, 2003 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 Securities and Exchange Commission. 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 January 15, 2003 or exercisable within 60 days thereof are deemed beneficially owned. 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 January 15, 2003, there were 98,627,463 shares of capital stock outstanding, of which 3,483,838 shares of Common Stock were outstanding, 26,000,000 shares of Series A Preferred Stock were outstanding, 19,370,223 shares of Series B Preferred Stock and 49,773,402 shares of Series C Preferred Stock were outstanding.

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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		Series A Preferred		Series B Preferred		Series C Preferred		
Name and Address	**Number of Shares**	**Percent of Class**	**Number of Shares**	**Percent of Class**	**Number of Shares**	**Percent of Class**	**Number of Shares**	**Percent of Class**	**Percent Voting Control(10)**
Entities affiliated with Jerusalem Venture Partners Building One Mahla, Jerusalem 91487			9,250,000	35.6%	3,296,704	17.0%	16,042,352	32.2%	25.1%
Entities affiliated with Worldview Technology Partners 435 Tasso Street, #120 Palo Alto, CA 94301			9,250,000	35.6%	3,296,704	17.0%	9,625,411	19.3%	19.7%
Entities affiliated with Oak Investment Partners IX, LP One Gorham Island Westport, CT 06880			5,000,000	19.2%	4,395,604	22.7%	9,583,300	19.3%	17.2%
Entities affiliated with Boulder Ventures III, LP 4750 Owings Mills Blvd. Owings Mill, MD 21117			2,000,000	7.7%	659,340	3.4%	1,203,176	2.4%	3.4%
Entities affiliated with Broadview Capital Partners One Bridge Plaza Fort Lee, NJ 07024					3,274,726	16.9%	4,439,721	8.9%	7.4%
Entities affiliated with Nassau Capital Partners					1,538,461	7.9%	2,205,823	4.4%	3.6%
ACON Venture Partners, LP 345 California Street Suite 3300					1,098,901	5.7%			1.2%

	Common		Series A Preferred		Series B Preferred		Series C Preferred		
San Francisco, CA 94104									
SMALLCAP World Fund, Inc. 3000 K Street, NW Suite 230 Washington, D.C. 20007					1,098,901	5.7%	4,973,129	10.0%	5.4%
Cisco Systems Capital Corporation(1)	710,216	20.4%							5.7%
David Schaeffer(2)	1,651,608	47.4%					1,604,235	3.2%	15.4%
H. Helen Lee(3)	99,878	2.9%							*
Erel Margalit(4)			9,250,000	35.6%	3,296,704	16.6%	16,042,352	32.2%	25.1%
James Wei(5)			9,250,000	35.6%	3,296,704	16.6%	9,625,411	19.3%	19.7%
Edward Glassmeyer(6)			5,000,000	19.2%	4,395,604	22.2%	9,583,300	19.3%	17.2%
Mark Schleifer(7)	11,874	*							*
Robert Beury(8)	12,763	*							*
Directors and executive officers as a group (11 persons)(9)	1,833,983	52.6%	23,500,000	90.4%	14,307,034	72.2%	41,295,019	83.0%	77.5%

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* Less than 1%

(1) Constitutes the number of shares of common stock subject to warrants issued in connection with the Company's credit facility with Cisco Systems Capital Corporation.

(2) Includes 135,000 shares of common stock held by the Schaeffer Descendant's Trust. Mr. Schaeffer disclaims beneficial ownership of such shares. Includes 291,608 shares which may be acquired upon exercise of stock options which are exercisable currently or within 60 days of January 15, 2003.

(3) Includes 95,745 shares which may be acquired upon exercise of stock options which are exercisable currently or within 60 days of January 15, 2003.

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

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

(6) 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.

(7) Common shares include 11,874 shares which may be acquired upon exercise of stock options which are exercisable currently or within 60 days of January 15, 2003.

(8)

Common shares include 12,763 shares which may be acquired upon exercise of stock options which are exercisable currently or within 60 days of January 15, 2003.

(9) See footnotes (1) through (7) above. Consists of David Schaeffer, H. Helen Lee, Mark Schleifer, Robert Beury, Erel Margalit, James Wei, Edward Glassmeyer, R. Brad Kummer, Neale D'Rozario, Timothy O'Neill, and Thaddeus Weed. Neale D'Rozario, the Company's Chief Information Officer, resigned his position with the Company effective January 16, 2003.

(10) Based on beneficial ownership of shares, with all shares of Common Stock and Preferred Stock voting as a single class in accordance with the voting provisions of the Company's Certificate of Incorporation.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

You should read this Information Statement together with the financial statements and related notes and other information accompanying this Information Statement. The results discussed therein are not necessarily indicative of the results to be expected in any future periods. Certain matters discussed therein are forward-looking statements. This Information Statement may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including any projections of earnings, revenues or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements may include the words "may," "will," "estimate," "intend," "continue," "believe," "expect" or "anticipate" and other similar words. Such forward-looking statements may be contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations," (attached to this Information Statement in Appendix C) among other places.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties. Key risks to our Company are described in our annual report on Form 10-K filed with the Securities and Exchange Commission. We do not intend, and undertake no obligation, to update any forward-looking statement.

FINANCIAL INFORMATION REGARDING THE COMPANY

Financial Statements

The Company's audited balance sheets as of December 31, 2001 and 2000 audited statements of operations, statements of stockholders' equity and statements of cash flows for the years ended 2001, 2000 and 1999 and related notes to the financial statements are attached to this Information Statement in Appendix B (the "Audited Financial Statements").

The Company's unaudited condensed consolidated balance sheet as of September 30, 2002 and unaudited condensed statements of operations, and condensed consolidated statements of cash flows and related notes to the condensed consoldiated financial statements for the three and nine months ended September 30, 2002 and 2001 (the "Unaudited Financial Statements") are also attached to this Information Statement in Appendix B.

Also included in this Information Statement is an unaudited pro forma consolidated balance sheet as of September 30, 2002 and unaudited pro forma consolidated statements of operations for the twelve months ending December 31, 2001 and nine months ending September 30, 2002 and the related notes to the unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated income statements (the "Pro Forma Financial Statements"). The Pro Forma Financial Statements give effect to the Company's issuance of 3,426,293 shares of Series D Preferred Stock and 3,426,293 shares of Series E Preferred Stock, which will be issued to the Participating Noteholders upon the consummation of the transactions contemplated by the Exchange Agreement and the Settlement Agreement and the cancellation of $106,789,000 in principal amount of, and the related accrued interest on, the Allied Riser notes and the payment of approximately $9.9 million in cash.

Supplementary Financial Information

The following tables present unaudited quarterly financial information for the eleven quarters ended September 30, 2002. The Company believes this information reflects all adjustments (consisting only of normal recurring adjustments) that it considers necessary for a fair presentation of such information in accordance with generally accepted accounting principles. The results for any quarter are not necessarily indicative of results for any future period (in thousands, except per share data):

	Year-Ended December 31, 2002		
	1st Quarter	2nd Quarter	3rd Quarter
Net Revenue	$ 3,542	$ 18,578	$ 15,960
Operating loss	$ (16,684)	$ (15,523)	$ (16,875)
Net loss	$ (17,959)	$ (24,562)	$ (25,409)
Net loss applicable to common stock	$ (17,959)	$ (24,562)	$ (25,409)
Basic and diluted net loss per common share	$ (6.81)	$ (7.18)	$ (7.33)
Weighted average number of shares outstanding	2,637,951	3,421,710	3,464,403

	Year-Ended December 31, 2001			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net Revenue	$	$ 90	$ 657	$ 2,271
Operating loss	$ (12,975)	$ (14,527)	$ (14,935)	$ (18,657)
Net loss	$ (12,794)	$ (15,188)	$ (17,448)	$ (21,483)
Net loss applicable to common stock	$ (12,794)	$ (15,188)	$ (17,448)	$ (45,651)
Basic and diluted net loss per common share	$ (9.12)	$ (10.81)	$ (12.39)	$ (32.20)
Weighted average number of shares outstanding	1,402,798	1,404,587	1,408,614	1,417,522

	Year-Ended December 31, 2000			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net Revenue	$	$	$	$
Operating loss	$ (284)	$ (1,510)	$ (3,930)	$ (8,499)
Net loss	$ (161)	$ (1,378)	$ (2,432)	$ (7,790)
Net loss applicable to common stock	$ (161)	$ (1,378)	$ (2,432)	$ (7,790)
Basic and diluted net loss per common share	$ (0.12)	$ (1.00)	$ (1.75)	$ (5.57)
Weighted average number of shares outstanding	1,360,000	1,381,354	1,390,072	1,397,515

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

Attached to this Information Statement in Appendix C is management's discussion and analysis of the Company's financial condition, changes in financial condition and results of operations for each of the fiscal years and interim periods covered by the Audited Financial Statements and the Unaudited Financial Statements. We encourage you to read the full text of Appendix C to gain a better understanding of the Company's historical financial statements.

Subsequent Events

In December 2002 the Company reached an agreement with one of its vendors to settle the litigation brought by that vendor against Allied Riser. Under this settlement, Allied Riser will make a cash payment to the vendor of approximately $1.6 million in 2003 and the vendor will dismiss the litigation and accept that cash payment as payment in full of amounts due to the vendor under the contracts that are the subject of the litigation.

Quantitative and Qualitative Disclosures About Market Risk

All of our financial interests that are sensitive to market risk are entered into for purposes other than trading. Our primary market risk exposure is related to our marketable securities and credit facility. We place our marketable securities investments in instruments that meet high credit quality standards as specified in our investment policy guidelines. Marketable securities were approximately $54.1 million at September 30, 2002, $51.7 million of which are considered cash equivalents and mature in 90 days or less and $2.4 million are short-term investments consisting of commercial paper.

Our credit facility provides for secured borrowings at the 90-day London Interbank Offered Rate plus a specified margin based upon our leverage ratio, as defined in the agreement. The interest rate resets on a quarterly basis and was a weighted average of 6.8% as of September 30, 2002. Interest payments are deferred and begin in 2005. Borrowings are secured by a pledge of all of our assets. 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, 2002, the change to our interest sensitive assets and liabilities would have an immaterial effect on our financial position, results of operations and cash flows over the next fiscal year. A 10% increase in the weighted-average interest rate for the three-month period ended September 30, 2002 would have increased interest expense for the period by approximately $0.4 million.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited pro forma consolidated financial statements and explanatory notes have been prepared to give effect to the proposed settlement of the Company's litigation with certain holders of Allied Riser convertible subordinated notes. In order to consummate the settlement, it is anticipated that in January 2003, the Company, Allied Riser and the holders of $106,789,000 in face value of the Allied Riser notes will enter into an Exchange Agreement, a Settlement Agreement and an Escrow Agreement. Pursuant to the Exchange Agreement, the Allied Riser noteholders will surrender to Allied Riser all of the notes that they hold including accrued and unpaid interest in exchange for a cash payment by Allied Riser in the amount of approximately $5.0 million and the issuance by the Company of 3,426,293 shares of Series D Preferred Stock and 3,426,293 shares of Series E Preferred Stock to Allied Riser, which will transfer such shares to the Allied Riser Noteholders (the "Exchange"). Pursuant to the Settlement Agreement, the Allied Riser noteholders will cause the noteholder litigation to be dismissed with prejudice and will deliver to the Company a general release in exchange for a cash payment by the Company of approximately $4.9 million and a general release from the Company, Allied Riser and certain former Allied Riser directors (the "Settlement").

In accordance with Article 11 of Regulation S-X under the Securities Act, unaudited pro forma financial statements as of September 30, 2002, and for the nine months ended September 30, 2002, and the year ended December 31, 2001, have been prepared to reflect, for accounting purposes, the payment to settle the noteholder litigation and the payment of cash and issuance of preferred stock in exchange for the surrender $106,789,000 in face value of the notes plus any accrued interest.

The following pro forma financial statements have been prepared based upon the historical financial statements of the Company. The pro forma financial statements should be read in conjunction with (a) the historical consolidated financial statements of the Company as of December 31, 2001 and 2000, for the years ended December 31, 2001 and 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, 2002, and for the nine month period ended September 30, 2002, included in this proxy statement.

The pro forma statements of operations assume that the Settlement and Exchange were completed on January 1, 2001. The pro forma balance sheet assumes that the Settlement and Exchange were completed on September 30, 2002. The pro forma financial statements are provided for illustrative purposes only, and are not necessarily indicative of the operating results that would have occurred if this transaction had been consummated at the beginning of the periods indicated, nor are they necessarily indicative of any future operating results.

Cogent Communications Group, Inc. and Subsidiaries
Unaudited Pro Forma Consolidated Balance Sheet
As of September 30, 2002

(in thousands, except share amounts)

	Historical Cogent	Pro Forma Adjustments	Pro Forma Cogent
ASSETS			
Current assets:			
Cash and cash equivalents	51,669(a)	$ (9,878)	$ 41,791
Short term investments	2,413		2,413
Accounts receivable, net of allowance for doubtful accounts of $3,847	5,432		5,432
Prepaid expenses and other current assets	3,665		3,665
Total current assets	63,179		53,301
Property and Equipment:			
Property and equipment	339,012		339,012
Accumulated depreciation and amortization	(34,076)		(34,076)
	304,936		304,936
Other Assets	20,557		20,557
Intangible Assets:			
Intangible assets	23,373		23,373
Accumulated amortization	(6,580)		(6,580)
	16,793		16,793
Total assets	$ 405,465		$ 395,587
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	8,294		8,294
Accrued liabilities	24,761(b)	$ (2,670)	22,091
Capital leases current portion	3,794		3,794
Total current liabilities	36,849		34,179
Cisco credit facility	223,556		223,556
Convertible Notes Allied Riser, net of discount of $79,745	37,235(c)	$ (33,991)	3,244
Capital leases, net of current	50,884		50,884
Other long term liabilities	1,206		1,206
Total liabilities	349,730		313,069
Stockholders' Equity:			
Convertible preferred stock, Series A, $0.001 par value: 26,000,000 shares authorized, issued and outstanding, liquidation preference of $30,061	25,892		25,892
Convertible preferred stock, Series B, $0.001 par value: 20,000,000 shares authorized, 19,370,223 shares issued and outstanding, liquidation preference of $99,168	88,009		88,009
Convertible preferred stock, Series C, $0.001 par value: 52,137,643 shares authorized, 49,773,402 shares issued and outstanding,	61,345		61,345

	Historical Cogent		Pro Forma Adjustments	Pro Forma Cogent
liquidation preference of $100,000				
Convertible preferred stock, Series D, $0.001 par value: 3,426,293 shares authorized, 3,426,293 shares issued and outstanding, liquidation preference of $6,884		(d)	$ 4,272	4,272
Convertible preferred stock, Series E, $0.001 par value: 3,426,293 shares authorized, 3,426,293 shares issued and outstanding, liquidation preference of $4,272		(d)	$ 4,272	4,272
Common stock, $0.001 par value, 21,100,000 shares authorized 3,483,838 shares issued and outstanding	4			4
Additional paid-in capital	49,322			49,322
Deferred compensation	(6,985)			(6,985)
Stock purchase warrants	9,013			9,013
Accumulated other comprehensive income (loss)	(12)			(12)
Accumulated deficit	(170,853)	(e)	$ 18,239	(152,614)
Total stockholders equity	55,735			82,518
Total liabilities & stockholders equity	$ 405,465			$ 395,587

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2002

(a) Represents the cash payment of approximately $4.9 million under the Settlement to dismiss the noteholder litigation and a cash payment of approximately $5.0 million under the Exchange.

(b) Represents the elimination of the accrued interest related to the $106.8 million par value 7.5% convertible subordinated notes due 2007 under the Exchange.

(c) Represents the retirement of the $106.8 million par value 7.5% convertible subordinated notes due 2007 and the related discount under the Exchange.

(d) Represents the issuance of 3,426,293 shares of Series D preferred stock and 3,426,293 shares of Series E preferred stock. Under the Exchange Agreement $0.04 of Series D and Series E preferred stock are issued to the noteholders for each $1.00 of par value at a nominal value per share of $1.24670 per share of both Series D and Series E preferred stock.

(e) Represents the legal settlement expense of approximately $4.9 million and the gain of $23.1 million resulting from the retirement of the notes.

Cash paid under Exchange Agreement	$ 4,998
Issuance of Series D preferred stock	4,272
Issuance of Series E preferred stock	4,272
Total consideration	13,542

Book value of retired notes		(33,991)
Accrued interest related to retired notes		(2,670)
Gain from retirement of notes	$	23,119

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Cogent Communications Group, Inc. and Subsidiaries
Unaudited Pro forma consolidated Statement of Operations
For the Year Ended December 31, 2001
(in thousands, except share and per share amounts)

		Historical Cogent		Pro Forma Adjustments		Pro Forma Cogent
Net service revenue	$	3,018			$	3,018
Operating expenses:						
Network operations (including $307 of amortization of deferred compensation)	$	20,297				20,297
Selling, general and administrative (including $2,958 of amortization of deferred compensation)	$	30,280				30,280
Legal settlement Allied Riser noteholders		(a)	$	4,880		4,880
Gain on retirement of Allied Riser convertible notes		(b)	$	(23,119)		(23,119)
Depreciation and amortization	$	13,535				13,535
Total operating expenses		64,112				45,873
Operating loss		(61,094)				(42,855)
Interest income		1,914(c)		(198)		1,716
Interest expense		(7,945)				(7,945)
Other income		212				212
Net Loss	$	(66,913)			$	(48,872)
Beneficial conversion of preferred stock	$	(24,168)			$	(24,168)
Net loss applicable to common stock	$	(91,081)			$	(73,040)
Weighted average common shares (basic and diluted)		1,406,007				1,406,007
Basic and diluted net loss per common share	$	(64.78)			$	(51.95)

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NOTES TO THE UNAUDITED PRO FORMA
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2001

(a)

Represents the legal settlement expense of approximately $4.9 million under the Settlement.

(b)

Represents the gain resulting from the retirement of $106.8 million par value 7.5% convertible subordinated notes due 2007 under the Exchange.

Cash paid under the Exchange	$ 4,998
Issuance of Series D preferred stock	4,272
Issuance of Series E preferred stock	4,272
Total consideration	13,542
Book value of retired notes	(33,991)
Accrued interest related to retired notes	(2,670)
Gain from retirement of notes	$ 23,119

(c)

Represents the estimated reduction to interest income from the total cash payments of approximately $9.9 million

Cogent Communications Group, Inc. and Subsidiaries
Unaudited Pro forma consolidated Statement of Operations
For the Nine Months Ended September 30, 2002
(in thousands, except share and per share amounts)

	Historical Cogent		Pro Forma Adjustments	Pro Forma Cogent
Net service revenue	$ 38,079			$ 38,079
Operating expenses:				
Network operations (including $180 of amortization of deferred compensation)	37,158			37,158
Selling, general and administrative (including $2,313 of amortization of deferred compensation)	26,021			26,021
Legal settlement Allied Riser noteholders		(a)	$ 4,880	4,880
Gain on retirement of Allied Riser convertible notes		(b)	(23,119)	(23,119)
Depreciation and amortization	23,981			23,981
Total operating expenses	87,160			68,921
Operating loss	(49,081)			(30,842)
Interest income and other	2,136	(c)	$ (113)	2,023
Interest expense	(25,512)	(d)	$ 9,923	(15,589)
Loss before extraordinary item	(72,457)			(44,408)
Extraordinary gain Allied Riser merger	4,528			4,528
Net loss	$ (67,929)			$ (39,880)
Weighted average common shares (basic and diluted)	3,177,577			3,177,577

	Historical Cogent	Pro Forma Adjustments	Pro Forma Cogent
Net loss per common share:			
Net loss before extraordinary item	$ (22.80)		$ (13.98)
Extraordinary gain per share	$ 1.42		$ 1.42
Basic and diluted net loss per common share	$ (21.38)		$ (12.55)

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002

(a) Represents the legal settlement expense of approximately $4.9 million under the Settlement Agreement

(b) Represents the gain resulting from the retirement of $106.8 million par value 7.5% convertible subordinated notes due 2007 under the Exchange Agreement.

Cash paid under Exchange Agreement	$ 4,998
Issuance of Series D preferred stock	4,272
Issuance of Series E preferred stock	4,272
Total consideration	13,542
Book value of retired notes	(33,991)
Accrued interest related to retired notes	(2,670)
Gain from retirement of notes	$ 23,119

(c) Represents the estimated reduction to interest income from the cash payments totaling approximately $9.9 million

(d) Represents the elimination of interest expense from the retirement of $106.8 million par value 7.5% convertible subordinated notes due 2007 under the Exchange.

By Order of the Board of Directors

David Schaeffer, Chairman and Chief Executive Officer

Dated: February 10, 2003
Washington, D.C.

Appendix A

**THIRD AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
COGENT COMMUNICATIONS GROUP, INC.**

**Pursuant to Sections 228, 242 and 245 of the
General Corporation Law of the State of Delaware**

(Originally incorporated under the same name on December 12, 2000)

Cogent Communications Group, Inc., (the "Corporation"), a corporation organized and existing under, and by virtue, of the provisions of the General Corporation Law of the State of Delaware (the "General Corporation Law"), DOES HEREBY CERTIFY AS FOLLOWS:

1. That the name of the Corporation is Cogent Communications Group, Inc.

2. That on January 27, 2003 the Board of Directors duly adopted resolutions proposing to amend and restate the certificate of incorporation of this Corporation, declaring said amendment and restatement to be advisable and in the best interests of this Corporation and its stockholders, and authorizing the appropriate officers of this Corporation to solicit the approval of the stockholders therefor.

3. That in lieu of a meeting and vote of stockholders, consents in writing have been signed by holders of outstanding stock having not less than the minimum number of votes that is necessary to consent to this amendment and restatement, and, if required, prompt notice of such action shall be given in accordance with the provisions of Section 228 of the General Corporation Law.

4. This Third Amended and Restated Certificate of Incorporation restates and integrates and further amends the certificate of incorporation of the Corporation, as heretofore amended or supplemented.

The text of the Corporation's certificate of incorporation is amended and restated in its entirety as follows:

ARTICLE 1. NAME.

The name of the Corporation is Cogent Communications Group, Inc.

ARTICLE 2. REGISTERED OFFICE AND AGENT.

The address of the registered office of the Corporation in the State of Delaware is 2711 Centerville Road, Suite 400, in the City of Wilmington, in the County of New Castle, 19808, Delaware. The name of its registered agent at such address is the Company Corporation.

ARTICLE 3. PURPOSE.

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law.

ARTICLE 4. CAPITAL STOCK.

A. Authorized Shares. The total number of shares of capital stock of all classes that the Corporation will have the authority to issue is one hundred twenty seven million three hundred seventy six thousand two hundred twenty-nine (127,376,229) shares, of which: (i) twenty one million one hundred thousand (21,100,000) shares, of a par value of $.001 per share, shall be of a class designated "Common Stock"; and (ii) one hundred six million two hundred seventy-six thousand two hundred twenty-nine (106,276,229) shares, of a par value of $.001 per share, of Preferred Stock, one million two-hundred and fifty thousand (1,250,000) of which shall be authorized but unissued Preferred Stock, twenty-six million (26,000,000) of which shall be of a series designated as the "Series A Participating Convertible Preferred Stock" (the "Series A Preferred Stock"), twenty million (20,000,000) of which shall be of a series designated as the "Series B Participating Convertible Preferred Stock" (the "Series B Preferred Stock,"), fifty-two million one hundred seventy-three thousand six hundred forty-three (52,173,643) of which shall be of a series designated as the "Series C Participating Convertible Preferred Stock" (the "Series C Preferred Stock"), three million four hundred twenty-six thousand two hundred ninety-three (3,426,293) of which shall be of a series designated as the "Series D Participating Convertible Preferred Stock" (the "Series D Preferred Stock"), and three million four hundred twenty-six thousand two hundred ninety-three (3,426,293) of which shall be of a series designated as the "Series E Participating Convertible Preferred Stock" (the "Series E Preferred Stock" and together with the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, and the Series D Preferred Stock, and any other shares of preferred stock which may be issued, the "Preferred Stock").

The authorized but unissued Preferred Stock may be issued in one or more additional series, each series to be appropriately designated by a distinguishing letter or title prior to the issue of any shares thereof. The Board of Directors is hereby authorized to fix or alter the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption including (sinking fund provisions, if any, the redemption price or prices, the liquidation preferences, any other qualifications, limitations, or restrictions thereof, of any wholly unissued series of Preferred Stock, and the number of shares constituting any such unissued series and the designation thereof, or any of them; and to increase or decrease the number of shares of any series subsequent to the issue of shares of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

Except as otherwise set forth in a certificate designating any currently authorized but unissued Preferred Stock, the designations, preferences, privileges and powers and relative, participating, optional or other special rights and qualifications, limitations or restrictions of the Preferred Stock and the Common Stock shall be as follows:

B. Preferred Stock.

1. Voting.

(a) Except as otherwise required by the General Corporation Law or provided in this Certificate, the shares of Preferred Stock shall be voted together with the shares of the Common Stock without distinction as to class or series at each annual or special meeting of stockholders of the Corporation, and may act by written consent in the same manner as the 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 of Preferred Stock would receive upon conversion of such share of Preferred Stock held by such stockholder into Common Stock. Such determination shall be made with (1) respect to a meeting of the stockholders of the Corporation on the record date fixed for meeting, or (2) with respect to a written consent of the stockholders of the Corporation, on the effective date of such written consent.

(b) Notwithstanding the provisions of Article 4.B.1(a) hereof, for so long as at least 29,441,293 shares of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock are outstanding in the aggregate, the affirmative vote or consent of the

holders of two-thirds of the issued and outstanding shares of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock voting together as a single class, shall be required to:

(1) Except pursuant to (i) employee stock option and similar incentive plans approved by the Board, (ii) the issuance of Common Stock upon the conversion of the 7.5% Convertible Subordinated Notes due 2007 of Allied Riser Communications Corporation (the "Notes") or the issuance of additional convertible debt or equity as a paid-in-kind interest payment the Notes approved by the Board of Directors or (iii) a conversion or exchange right set forth in this Certificate of Incorporation, designate, authorize, create, issue, sell, redeem or repurchase any class or series of equity securities or equity-backed securities of the Corporation or any Subsidiary, including without limitation, capital stock (including any shares of treasury stock) or rights, options, warrants or other securities convertible into or exercisable or exchangeable for capital stock or any debt security which by its terms is

convertible into or exchangeable for any equity security or has any other equity feature or any security that is a combination of debt and equity (collectively, "Equity Securities");

(2) Subject to the provisions of Article 4.B.4 hereof, declare or pay any dividends or make any distributions of any kind with respect to any outstanding Equity Securities of the Corporation or any Subsidiary;

(3) Approve the merger, consolidation, dissolution or liquidation of the Corporation or any Subsidiary, or any transaction having the same effect;

(4) Increase or decrease the aggregate number of authorized shares of Common Stock or Preferred Stock;

(5) Sell all or substantially all of the assets of the Corporation and its Subsidiaries taken as a whole, whether directly through a sale of the Corporation's interests in its Subsidiaries or other assets, or indirectly through a sale of the assets of its Subsidiaries, in one transaction or any series of transactions, or approve any transaction or series of transactions having the same effect;

(6) Cause, directly or indirectly, a material change in the nature of the business or strategic direction of the Corporation and its Subsidiaries, taken as a whole;

(7) Approve the filing for bankruptcy of or any decision not to take action to prevent a filing for bankruptcy or not to oppose an involuntary filing for bankruptcy or other winding up of the Corporation or any Subsidiary;

(8) Approve the establishment and maintenance of an Executive Committee of the Board of Directors or increase or decrease the number of directors composing the Board of Directors; or,

(9) Amend, repeal or modify any provision of the Certificate of Incorporation in a manner that adversely affects the rights, powers or preferences of the Preferred Stock.

(c) Notwithstanding the provisions of Article 4.B.1(a) hereof, holders of Series A Preferred Stock, voting as a class, will have the authority through the affirmative vote or consent of the holders of not less than a majority of the then outstanding shares of Series A Preferred Stock to elect two (2) of the six (6) members of the Corporation's Board of Directors.

(d) Notwithstanding the provisions of Article 4.B.1(a) hereof, holders of Series B Preferred Stock, voting as a class, will have the authority through the affirmative vote or

consent of the holders of not less than a majority of the then outstanding shares of Series B Preferred Stock to elect one (1) of the six (6) members of the Corporation's Board of Directors.

(e) Notwithstanding the provisions of Article 4.B.1(a) hereof, holders of Series C Preferred Stock, voting as a class, will have the authority through the affirmative vote or consent of the holders of not less than a majority of the then outstanding shares of Series C Preferred Stock to elect one (1) of the six (6) members of the Corporation's Board of Directors.

(f) Notwithstanding the provisions of Article 4.B.1(a) hereof, holders of Series A, Series B and Series C Preferred Stock, voting together as a class, will have the authority through the affirmative vote or consent of the holders of not less than a majority of the then outstanding shares of Series A, Series B and Series C Preferred Stock, to nominate one (1) of the three (3) members to be appointed to the Compensation Committee of the Corporation's Board of Directors.

2. Preferences on Liquidation, Dissolution etc.

(a) Liquidation Preference. Upon any dissolution, liquidation, or winding up of the Corporation, whether voluntary or involuntary, after payment of all amounts owing to holders of any capital stock ranking senior to the Series A Preferred

Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and the Series E Preferred Stock, the holders of outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, the Series D Preferred Stock and the Series E Preferred Stock will be entitled to receive, out of the assets of the Corporation remaining after all of the Corporation's debts and liabilities have been paid or otherwise provided for, but before any payments have been made to the holders of Common Stock or any other class or series of capital stock of the Corporation ranking junior in preference to the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and the Series E Preferred Stock, an amount equal to $1.00 per share (the "Series A Original Purchase Price") in the case of the Series A Preferred Stock, an amount equal to $4.55 per share (the "Series B Original Purchase Price") in the case of the Series B Preferred Stock, and an amount equal to $1.2467 per share (the "Series E Original Purchase Price") in the case of the Series E Preferred Stock, plus interest accruing on the Series A Original Purchase Price, the Series B Original Purchase Price or the Series E Original Purchase Price, as the case may be, from the issue date of the securities in respect of which the Series A Preferred Stock or the Series B Preferred Stock, as the case may be, were issued, or the date the Series E Preferred Stock was issued, as applicable, through the date of such payment at a per annum rate of interest equal to the three month London Interbank Offered Rate, as announced on the first business day of each calendar quarter in the "Money Rates" column of the Eastern Edition of The Wall Street Journal, plus one hundred and fifty (150) basis points (as to all holders entitled thereto, the "Series A Aggregate Liquidation Preference" in the case of the Series A Preferred Stock, the "Series B Aggregate Liquidation Preference" in the case of the Series B Preferred Stock, and the "Series E Aggregate Liquidation Preference" in the case of the Series E Preferred Stock), an amount equal to the greater of (i) $1.2467 per share (the "Series C Original Purchase Price") plus interest accruing on the Series C Original Purchase Price from the issue date of the Series C Preferred Stock through the date of such payment at a per annum rate of interest equal to the three month London Interbank Offered Rate, as announced on the first business day of each calendar quarter in the "Money Rates" column of the Eastern Edition of The Wall Street Journal, plus one hundred and fifty (150) basis points, or (ii) $2.0091 (as to all holders entitled thereto, the "Series C Aggregate Liquidation Preference"), and an amount equal to the greater of (i) $1.2467 per share (the

"Series D Original Purchase Price") plus interest accruing on the Series D Original Purchase Price from the issue date of the Series D Preferred Stock through the date of such payment at a per annum rate of interest equal to the three month London Interbank Offered Rate, as announced on the first business day of each calendar quarter in the "Money Rates" column of the Eastern Edition of The Wall Street Journal, plus one hundred and fifty (150) basis points, or (ii) $2.0091 (as to all holders entitled thereto, the "Series D Aggregate Liquidation Preference", and together with the Series A Aggregate Liquidation Preference, the Series B Aggregate Liquidation Preference, the Series C Aggregate Liquidation Preference and the Series E Aggregate Liquidation Preference, the "Aggregate Liquidation Preferences"). If upon any such dissolution, liquidation, or winding up of the affairs of the Corporation, whether voluntary or involuntary, the assets of the Corporation available to be distributed as aforesaid among the holders of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and the Series E Preferred Stock shall be insufficient to permit the payment in full to them of the Series A, Series B, Series C, Series D and Series E Aggregate Liquidation Preferences, then the entire assets of the Corporation so to be distributed shall be distributed ratably based upon their respective Aggregate Liquidation Preferences among such holders of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and the Series E Preferred Stock.

(b) Remaining Liquidating Distributions. After payment has been made in full to the holders of Preferred Stock of their respective Aggregate Liquidation Preferences, all remaining assets of the Corporation available for distribution shall be distributed ratably to the holders of the Preferred Stock and the holders of the Common Stock, assuming for purposes of such calculation that all outstanding shares of Preferred Stock are converted into shares of Common Stock at their then Applicable Conversion Rates (as defined in Article 4.B.3(c) below), until, with respect to the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and the Series E Preferred Stock, such time, if ever, as the amount distributed pursuant to Article 4.B.2(a) above plus the amount distributed pursuant to the provisions of this paragraph equals, with respect to each outstanding share of Series A Preferred Stock, $3.00 (as adjusted for any stock splits, reverse stock splits, recapitalizations and similar capital events affecting the number of shares of Series A Preferred Stock then outstanding); with respect to each outstanding share of Series B Preferred Stock, $9.10 (as adjusted for any stock splits, reverse stock splits, recapitalizations and similar capital events affecting the number of shares of Series B Preferred Stock then outstanding); with respect to each outstanding share of Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, $3.7401 (as adjusted for any stock splits, reverse stock splits, recapitalizations and similar capital events affecting the number of shares of Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock then outstanding) (the "Pari Passu Distributions"). After payment in full of the Aggregate Liquidation Preferences and the Pari Passu Distributions to the holders of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and the Series E Preferred Stock the outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall be deemed to be redeemed and cancelled and the remaining assets and funds of the Corporation will be ratably distributed to all holders of the Common Stock.

(c) Assets other than Cash. If assets other than cash are to be distributed to any holders of Preferred Stock or Common Stock pursuant to Article 4.B.2 hereof, the amount received by such holders upon receipt of those assets shall be deemed to be the fair market value of such assets as determined in good faith by the Board of Directors of the Corporation

in accordance with sound financial practice. If shares of stock or other securities are distributed to any holders of Preferred Stock or Common Stock pursuant to Article 4.B.2 hereof, the fair market value shall mean per share or unit of such security, at any date, the average of the daily market prices for the twenty trading business days ending on the second trading day immediately preceding the date of distribution. The market price for each such business day shall be the last sales price on such day as reported on the consolidated transaction reporting system for the principal securities exchange on which the shares of stock or other securities being distributed pursuant to Article 4.B.2 hereof is then listed or admitted to trading (or, if applicable, the last sale price reported by the National Association of Securities Dealers Automated Quotation Service ("NASDAQ") National Market System), or, if no sale takes place on such day on any such exchange or no such sale is quoted on such system, the average of the closing bid and asked prices on such day as so reported, or, if such securities are not then listed or admitted to trading on any stock exchange, the market price for each such business day shall be the average of the reported closing bid and asked prices on such day in the over-the-counter market, as reported by NASDAQ. If no market prices are reported, then the market price shall be the fair market value as determined in good faith by the Board of Directors. If such securities are subject to an agreement or other restriction limiting their free marketability, the loss of that marketability shall be considered by the Board of Directors in making its determination of fair market value.

(d) Amount Payable in Mergers, etc. Unless the holders of not less than $66^{2}/_{3}$% of the voting power of the outstanding shares of the Series A Preferred Stock, the Series B Preferred Stock and the Series C Preferred Stock (a "Two Thirds Interest") elect to have the provisions of Article 4.B.3(i) apply, the following events shall be treated as a liquidation, dissolution or winding up within the meaning of this Article 4.B.2: a consolidation, merger or reorganization of the Corporation with or into any other corporation or corporations in which the stockholders of the Corporation shall own less than a majority (calculated on an as converted basis, fully diluted) of the voting securities of the surviving corporation or any transaction or series of related transactions in which in excess of fifty percent (50%) of the Corporation's voting power is transferred or the sale, transfer or lease of all or substantially all of the assets of the Corporation (each a "Change of Control Transaction"). If such election is not made, all consideration payable to the stockholders of the Corporation in connection with any such Change of Control Transaction, or all consideration payable to the Corporation and distributable to its stockholders, together with all other available assets of the Corporation (net of obligations owed by the Corporation that are senior to the Preferred Stock), in connection with any such Change of Control Transaction, shall be, as applicable, paid by the purchaser to the holders of, or distributed by the Corporation in redemption (out of funds legally available therefor) of, the Preferred Stock and any capital stock of the Corporation ranking junior to the Preferred Stock in liquidation in accordance with the preferences and priorities set forth in Articles 4.B.2(a) and 4.B.2(b) above, with such preferences and priorities specifically intended to be applicable in any such Change of Control Transaction as if such transaction were a liquidation, dissolution or winding up within the meaning of this Article 4.B.2. In furtherance of the foregoing, the Corporation shall take such actions as are necessary to give effect to the provisions of this Article 4.B.2(d), including causing the definitive agreement relating to such Change of Control Transaction to provide for a rate at which the shares of Preferred Stock are converted into or exchanged for cash, new securities or other property, or otherwise causing such shares to be redeemed. The amount deemed distributed to the holders of Preferred Stock upon any such transaction shall be the cash or the value of the property, rights or securities distributed to such holders by the Corporation or the acquiring person, firm or other entity, as applicable. Any election by a Two Thirds Interest pursuant to this Article 4.B.2(d) shall be made by written notice to the Corporation and the

other holders of Preferred Stock at least five (5) days prior to the closing of the relevant transaction. Upon the election of such Two Thirds Interest hereunder, all holders of Preferred Stock shall be deemed to have made such election and such election shall bind all holders of the Preferred Stock. Notwithstanding anything to the contrary contained herein, the holders of shares of Preferred Stock or a Two Thirds Interest, as applicable, shall have the right to elect to give effect to the conversion rights contained in Article 4.B.3 or the rights contained in Article 4.B.3(i) instead of giving effect to the provisions contained in this Article 4.B.2(d) with respect to the shares of Preferred Stock held by such holders. The provisions of this Article 4.B.2(d) shall not apply to any reorganization, merger or consolidation involving (1) only a change in the state of incorporation of the Corporation, (2) a merger of the Corporation with or into a wholly-owned subsidiary of the Corporation which is incorporated in the United States of America, or (3) a merger of the Corporation with or into an entity, substantially all of the outstanding equity securities (or equity-linked securities) of which are owned by then current holders of the Preferred Stock or their affiliates.

(e) Election to Convert. Notwithstanding anything contained herein to the contrary, a holder of shares of Preferred Stock may elect to convert any or all of such shares of Preferred Stock into Common Stock at any time prior to close of business of the Company on the date prior to the day on which any liquidation preference provided for in this Article 4.B is to be paid. Any such conversion shall be at the then Applicable Conversion Rate and on the other terms and conditions set forth in Article 4.B.3 below.

3. Conversion Rights. Conversion of the Preferred Stock into shares of Common Stock shall be subject to the following provisions:

(a) Optional Conversion. Subject to and in compliance with the provisions of this Article 4.B.3, any shares of Preferred Stock may, at the option of the holder, be converted at any time into fully-paid and nonassessable shares of Common Stock. The number of shares of Common Stock to which a holder of Series A Preferred Stock shall be entitled upon conversion shall be the product obtained by multiplying the "Series A Conversion Rate" then in effect (determined as provided in Article 4.B.3(b)) by the number of shares of Series A Preferred Stock being converted; the number of shares of Common Stock to which a holder of Series B Preferred Stock shall be entitled upon conversion shall be the product obtained by multiplying the "Series B Conversion Rate" then in effect (determined as provided in Article 4.B.3(b)) by the number of shares of Series B Preferred Stock being converted; the number of shares of Common Stock to which a holder of Series C Preferred Stock shall be entitled upon conversion shall be the product obtained by multiplying the "Series C Conversion Rate" then in effect (determined as provided in Article 4.B.3(b)) by the number of shares of Series C Preferred Stock being converted; the number of shares of Common Stock to which a holder of Series D Preferred Stock shall be entitled upon conversion shall be the product obtained by multiplying the "Series D Conversion Rate" then in effect (determined as provided in Article 4.B.3(b)) by the number of shares of Series D Preferred Stock being converted; and the number of shares of Common Stock to which a holder of Series E Preferred Stock shall be entitled upon conversion shall be the product obtained by multiplying the "Series E Conversion Rate" then in effect (determined as provided in Article 4.B.3(b)) by the number of shares of Series E Preferred Stock being converted.

(b) Conversion Rates. The conversion rate in effect at any time for conversion of the Series A Preferred Stock (the "Series A Conversion Rate") shall be the quotient obtained by dividing the Series A Original Purchase Price by the "Series A Applicable Conversion Price," calculated as provided in Article 4.B.3(c). The conversion rate in effect at any time for conversion of the Series B Preferred Stock (the "Series B Conversion Rate") shall be the quotient obtained by dividing the Series B Original Purchase Price by the "Series B

Applicable Conversion Price," calculated as provided in Article 4.B.3(c). The conversion rate in effect at any time for conversion of the Series C Preferred Stock (the "Series C Conversion Rate") shall be the quotient obtained by dividing Series C Original Purchase Price by the "Series C Applicable Conversion Price," calculated as provided in Article 4.B.3(c). The conversion rate in effect at any time for conversion of the Series D Preferred Stock (the "Series D Conversion Rate") shall be the quotient obtained by dividing Series D Original Purchase Price by the "Series D Applicable Conversion Price," calculated as provided in Article 4.B.3(c). The conversion rate in effect at any time for conversion of the Series E Preferred Stock (the "Series E Conversion Rate") shall be the quotient obtained by dividing Series E Original Purchase Price by the "Series E Applicable Conversion Price," calculated as provided in Article 4.B.3(c).

(c) Applicable Conversion Prices. The Series A Applicable Conversion Price shall initially be $10.00 (the "Series A Applicable Conversion Price"). The Series B Applicable Conversion Price shall initially be $35.05663 (the "Series B Applicable Conversion Price"). The Series C Applicable Conversion Price shall initially be $12.467 (the "Series C Applicable Conversion Price"). The Series D Applicable Conversion Price shall initially be $12.467 (the "Series D

Applicable Conversion Price"). The Series E Applicable Conversion Price shall initially be $12.467 (the "Series E Applicable Conversion Price," and together with the Series A Applicable Conversion Price, the Series B Applicable Conversion Price, the Series C Applicable Conversion Price, and the Series D Applicable Conversion Price the "Applicable Conversion Prices"). The initial Applicable Conversion Prices shall be adjusted from time to time in accordance with this Article 4.B.3. All references to an Applicable Conversion Price herein shall mean the Applicable Conversion Price as so adjusted.

(d) Mechanics of Conversion. Each holder of Preferred Stock who wishes to convert the same into shares of Common Stock pursuant to this Article 4.B.3 shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or any transfer agent for the Preferred Stock, and shall give written notice to the Corporation at such office that such holder elects to convert the same. Such notice shall state the number of shares of Preferred Stock being converted. Thereupon, the Corporation shall promptly issue and deliver at such office to such holder a certificate or certificates for the number of shares of Common Stock to which such holder is entitled and shall promptly pay in cash or, to the extent sufficient funds are not available therefor, in Common Stock (at the Common Stock's fair market value as determined by the Board of Directors as of the date of such conversion) any declared and unpaid dividends on the shares of Preferred Stock being converted. Such conversion shall be deemed to have been made at the close of business on the date of such surrender of the certificates representing the shares of Preferred Stock to be converted, and the person entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder of such shares of Common Stock on such date. Upon conversion of only a portion of the number of shares of Preferred Stock represented by a certificate surrendered for conversion, the Corporation shall issue and deliver to or upon the written order of the holder of the certificate so surrendered for conversion, at the expense of the Corporation, a new certificate covering the number of shares of Preferred Stock representing the unconverted portion of the certificate so surrendered.

(e) Adjustment for Stock Splits and Combinations. If the Corporation shall at any time or from time to time after the date that the first share of the Series D Preferred Stock is issued (the "Series D Original Issue Date") effect a subdivision of the outstanding Common Stock without a corresponding subdivision of the Preferred Stock, the Applicable Conversion Price in effect immediately before that subdivision with respect to the Preferred Stock shall be proportionately decreased. Conversely, if the Corporation shall at any time or from time to

time after the Series D Original Issue Date combine the outstanding shares of Common Stock into a smaller number of shares without a corresponding combination of the Preferred Stock, the Applicable Conversion Price in effect immediately before the combination with respect to the Preferred Stock shall be proportionately increased. Any adjustment under this Article 4.B.3(e) shall become effective at the close of business on the date the subdivision or combination becomes effective.

(f) Adjustment for Common Stock Dividends and Distributions. If the Corporation at any time or from time to time after the Series D Original Issue Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, in each such event the Applicable Conversion Prices that are then in effect shall be decreased as of the time of such issuance or, in the event such record date is fixed, as of the close of business on such record date, to the price determined by multiplying each Applicable Conversion Price then in effect by a fraction (1) the numerator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and (2) the denominator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution; provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, each Applicable Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter each Applicable Conversion Price shall be adjusted pursuant to this Article 4.B.3(f) to reflect the actual payment of such dividend or distribution; and provided further, that if an adjustment has been made to any Applicable Conversion Price on the fixing of the record date for a dividend or distribution, no additional adjustment shall be made when such dividend is paid or distribution is made.

(g) Adjustments for Other Dividends and Distributions. If the Corporation at any time or from time to time after the Series D Original Issue Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Corporation other than shares of Common Stock, in each such event provision shall be made so that the holders of Preferred Stock shall receive upon conversion thereof, in addition to the number of shares of Common Stock receivable thereupon, the amount of other securities of the Corporation which they would have received had their shares of Preferred Stock been converted into Common Stock on the date of such event and had they thereafter, during the period from the date of such event to and including the conversion date, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period under this Article 4.B.3 with respect to the rights of the holders of such shares of Preferred Stock or with respect to such other securities by their terms; provided, however, that if such a provision has been made on the fixing of the record date for a dividend or distribution, no additional provision shall be made when such dividend is paid or distribution is made.

(h) Adjustment for Reclassification. Exchange and Substitution. If at any time or from time to time after the Series D Original Issue Date, the Common Stock issuable upon the conversion of the Preferred Stock is changed into the same or a different number of shares of any class or classes of stock, whether by recapitalization, reclassification or otherwise (other than a subdivision or combination of shares or stock dividend or a reorganization, merger, consolidation or sale of assets provided for elsewhere in this Article 4.B.3), in any such event each holder of shares of Preferred Stock shall have the right thereafter to convert such stock into the kind and amount of stock and other securities and property receivable upon such

recapitalization, reclassification or other change by holders of the maximum number of shares of Common Stock into which such Preferred Stock could have been converted immediately prior to such recapitalization, reclassification or change, all subject to further adjustment as provided herein or with respect to such other securities or property by the terms thereof.

(i) Reorganizations. Mergers. Consolidations or Sales of Assets. If at any time or from time to time after the Series D Original Issue Date, there is a capital reorganization of the Common Stock (other than a recapitalization, subdivision, combination, reclassification, exchange or substitution of shares provided for elsewhere in this Article 4.B.3), as a part of such capital reorganization, provision shall be made so that the holders of Preferred Stock shall thereafter be entitled to receive upon conversion of such Preferred Stock the number of shares of stock or other securities or property of the Corporation to which a holder of the number of shares of Common Stock deliverable upon conversion would have been entitled on such capital reorganization, subject to adjustment in respect of such stock or securities by the terms thereof. In any such case, appropriate adjustment shall be made in the application of the provisions of this Article 4.B.3 with respect to the rights of the holders of Preferred Stock after the capital reorganization to the end that the provisions of this Article 4.B.3 (including adjustment of the Applicable Conversion Price then in effect and the number of shares issuable upon conversion of the Preferred Stock) shall be applicable after that event and be as nearly equivalent as practicable. Notwithstanding anything contained herein to the contrary, the foregoing shall not apply with respect to any Change of Control Transaction unless holders of two-thirds of the Preferred Stock then outstanding so elect in accordance with the provisions of Article 4.B.2(d).

(j) Sale of Shares Below Applicable Conversion Price.

(1) If at any time or from time to time after the Series D Original Issue Date, the Corporation issues or sells, or is deemed by the express provisions of this subsection (j) to have issued or sold, Additional Shares of Common Stock (as hereinafter defined), other than (i) pursuant to a transaction described in Articles 4.B.3(e)-(i) above for which adjustment was made as provided in the applicable Article or (ii) the issuance of Common Stock, or options or warrants to purchase Common Stock, issued to financial institutions or lessors in connection with commercial credit arrangements, equipment financings or similar transactions, as approved by the two-thirds (2/3rds) of the then sitting members of the Board of Directors, in any event for an Effective Price (as hereinafter defined) less than (v) the then-effective Series A Applicable Conversion Price in the case of the Series A Preferred Stock or (w) the then-effective Series B Applicable Conversion Price in the case of the Series B Preferred Stock or (x) the then-effective Series C Applicable Conversion Price in the case of the Series C Preferred Stock or (y) (x) the then-effective Series D Applicable Conversion Price in the case of the Series D Preferred Stock or (z) the then-effective Series E Applicable Conversion Price in the case of the Series E Preferred Stock, then in each such case the then existing Series A Applicable Conversion Price and/or Series B Applicable Conversion Price and/or Series C Applicable Conversion Price and/or Series D Applicable Conversion Price and/or Series E Applicable Conversion Price, as the case may be, shall be reduced, as of the opening of business on the date of such issue or sale (or such deemed issuance or sale), to a price, with respect to the Series C Applicable Conversion Price, the Series D Applicable Conversion Price and the Series E Applicable Conversion Price, equal to such Effective Price or to a price, with respect to the Series A Applicable Conversion Price and/or Series B Applicable Conversion Price, determined by multiplying the then Applicable Conversion Price for such series of Preferred Stock by a

fraction (i) the numerator of which shall be (A) the number of shares of Common Stock deemed

outstanding (as defined below) immediately prior to such issue or sale, plus (B) the number of shares of Common Stock which the Aggregate Consideration received (as defined in subsection (j)(2)) by the Corporation for the total number of Additional Shares of Common Stock so issued would purchase at such Applicable Conversion Price and (ii) the denominator of which shall be the number of shares of Common Stock deemed outstanding (as defined below) immediately prior to such issue or sale plus the total number of Additional Shares of Common Stock so issued. For the purposes of the preceding sentence, the number of shares of Common Stock deemed to be outstanding as of a given date shall be the sum of (A) the number of shares of Common Stock actually outstanding and (B) the number of shares of Common Stock issuable upon conversion of the then outstanding Preferred Stock and the exercise of all outstanding rights, warrants and options to purchase Common Stock or Convertible Securities (as defined below).

(2) For the purpose of making any adjustment required under this Article 4.B.3(j), the "Aggregate Consideration" received by the Corporation for any issue or sale of securities shall (A) to the extent it consists of cash, be computed at the net amount of cash received by the Corporation after deduction of any underwriting or similar commissions, compensation or concessions paid or allowed by the Corporation in connection with such issue or sale but without deduction of any expenses payable by the Corporation, (B) to the extent it consists of property other than cash, be computed at the fair value of that property as determined in good faith by the Board of Directors, and (C) if Additional Shares of Common Stock, Convertible Securities or rights or options to purchase either Additional Shares of Common Stock or Convertible Securities are issued or sold together with other stock or securities or other assets of the Corporation for a consideration which covers both, be computed as the portion of the consideration so received that may be reasonably determined in good faith by the Board of Directors to be allocable to such Additional Shares of Common Stock, Convertible Securities or rights or options.

(3) For the purpose of the adjustment required under this Article 4.B.3(j), if the Corporation issues or sells any rights or options for the purchase of, or stock or other securities convertible into, Additional Shares of Common Stock (such convertible stock or securities being herein referred to as "Convertible Securities") and if the Effective Price of such Additional Shares of Common Stock is less than the effective Series A Applicable Conversion Price in the case of the Series A Preferred Stock, the Series B Applicable Conversion Price in the case of the Series B Preferred Stock, the Series C Applicable Conversion Price in the case of the Series C Preferred Stock, the Series D Applicable Conversion Price in the case of the Series D Preferred Stock or the Series E Applicable Conversion Price in the case of the Series E Preferred Stock, the Corporation shall be deemed to have issued at the time of the issuance of such rights or options or Convertible Securities the maximum number of Additional Shares of Common Stock issuable upon exercise or conversion thereof and to have received as consideration for the issuance of such shares an amount equal to the total amount of the consideration, if any, received by the Corporation for the issuance of such rights or options or Convertible Securities, plus, in the case of such rights or options, the minimum amounts of consideration, if any, payable to the Corporation upon the exercise of such rights or options, plus, in the case of Convertible Securities, the minimum amounts of consideration, if any, payable to the Corporation upon the conversion thereof (other than by cancellation of liabilities or obligations evidenced by such Convertible Securities); provided that if in the case of Convertible Securities the minimum amounts of such consideration cannot be ascertained, but are a function of antidilution or similar protective clauses, the Corporation shall be deemed to have received the minimum

amounts of consideration without reference to such clauses; provided further that if the minimum amount of consideration payable to the Corporation upon the exercise or conversion of rights, options or Convertible Securities is reduced over time or on the occurrence or non-occurrence of specified events other than by reason of antidilution adjustments, the Effective Price shall be recalculated using the figure to which such minimum amount of consideration is reduced; provided further that if the minimum amount of consideration payable to the Corporation upon the exercise or conversion of such rights, options or Convertible Securities is subsequently increased, the Effective Price shall be again recalculated using the increased minimum amount of consideration payable to the Corporation upon the exercise or conversion of such rights, options or Convertible Securities. No readjustment in respect of any rights, options or Convertible Securities pursuant to this Article 4.b.3(j) shall have the effect of increasing the Series A Applicable Conversion Price, the Series B Applicable Conversion Price, the Series C Applicable Conversion Price, the Series D Applicable Conversion Price or the Series E Applicable Conversion Price to an amount which exceeds the lower of (i) the Applicable Conversion Price for such series that was in effect on the original adjustment date or (ii) the Applicable Conversion Price for such series that would have resulted from any issuance of Additional Shares of Common Stock between the original adjustment date and the date of such readjustment for which no adjustment was made. No further adjustment of Series A Applicable Conversion Price, the Series B Applicable Conversion Price, the Series C Applicable Conversion Price, the Series D Applicable Conversion Price or the Series E Applicable Conversion Price, as the case may be, as adjusted upon the issuance of such rights, options or Convertible Securities, shall be made as a result of the actual issuance of Additional Shares of Common Stock on the exercise of any such rights or options or the conversion of any such Convertible Securities. If any such rights or options or the conversion privilege represented by any such Convertible Securities shall expire without having been exercised, each Applicable Conversion Price as adjusted upon the issuance of such rights, options or Convertible Securities shall be readjusted to the Applicable Conversion Price which would have been in effect had an adjustment been made on the basis that the only Additional Shares of Common Stock so issued were the Additional Shares of Common Stock, if any, actually issued or sold on the exercise of such rights or options or rights of conversion of such Convertible Securities, and such Additional Shares of Common Stock, if any, were issued or sold for the consideration actually received by the Corporation upon such exercise, plus the consideration, if any, actually received by the Corporation for the granting of all such rights or options, whether or not exercised, plus the consideration received for issuing or selling the Convertible Securities actually converted, plus the consideration, if any, actually received by the Corporation (other than by cancellation of liabilities or obligations evidenced by such Convertible Securities) on the conversion of such Convertible Securities, provided that such readjustment shall not apply to prior conversions of Preferred Stock.

(4) "Additional Shares of Common Stock" shall mean, with respect to any shares of Preferred Stock, all shares of Common Stock issued by the Corporation or deemed to be issued pursuant to this Article 4.B.3(j), whether or not subsequently reacquired or retired by the Corporation other than (1) shares of Common Stock issued upon conversion of any Preferred Stock, (2) up to 1,490,000 shares of Common Stock issued or issuable pursuant to options, warrants or other rights (as adjusted for any stock splits, reverse stock splits, recapitalizations and similar capital events) issued to employees, officers or directors of, or consultants or advisors to the Corporation or any Subsidiary pursuant to stock purchase or stock option plans or other arrangements that are approved by the Board of Directors, (3) up to 722,881 shares of Common Stock issued or issuable

pursuant to options, warrants or other rights (as adjusted for any stock splits, reverse stock splits, recapitalizations and similar capital events) issued to investors in or lenders to the Corporation, (4) shares of Series D Preferred Stock or Series E Preferred Stock issued in exchange for the Notes, and any Common Stock issued upon coversion thereof, and (5) additional convertible debt or equity issued in exchange for, upon conversion of, or as paid-in-kind interest payment on, the Notes.

(5) The "Effective Price" of Additional Shares of Common Stock shall mean the quotient determined by dividing the total number of Additional Shares of Common Stock issued or sold, or deemed to have been issued or sold by the Company under this Article 4.B.3(j), into the Aggregate Consideration received, or deemed to have been received by the Company for such issue under this Article 4.B.3(j), for such Additional Shares of Common Stock.

(k) Accountants' Certificate of Adjustment. In each case of an adjustment or readjustment of an Applicable Conversion Price for the number of shares of Common Stock or other securities issuable upon conversion of a series of Preferred Stock, the Corporation, at its expense, shall compute such adjustment or readjustment in accordance with the provisions hereof and prepare a certificate showing such adjustment or readjustment, and shall mail such certificate, by first class mail, postage prepaid, to each registered holder of shares of such series of Preferred Stock at the holder's address as shown in the Corporation's books. The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (1) the consideration received or deemed to be received by the Corporation for any Additional Shares of Common Stock issued or sold or deemed to have been issued or sold, (2) the Applicable Conversion Price for such series in effect prior to and after giving effect to such adjustment or readjustment, (3) the number of Additional Shares of Common Stock and (4) the type and amount, if any, of other property which at the time would be received upon conversion of such shares of such series of Preferred Stock.

(l) Notices of Record Date. Upon (i) any taking by the Corporation of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, or (ii) any capital reorganization of the Corporation, any reclassification or recapitalization of the capital stock of the Corporation, any merger or consolidation of the Corporation with or into any other Corporation, any Change of Control Transaction, any sale of all or substantially all of the Corporation's assets or any voluntary or involuntary dissolution, liquidation or winding up of the Corporation, the Corporation shall mail to each holder of Preferred Stock at least twenty (20) days prior to the record date specified therein a notice specifying (1) the date on which any such record is to be taken for the purpose of such dividend or distribution and a description of such dividend or distribution, (2) the date on which any such reorganization, reclassification, consolidation, merger, dissolution, liquidation or winding up is expected to become effective, and the material terms of such transaction, and (3) the date, if any, that is to be fixed as to when the holders of record of Common Stock (or other securities) shall be entitled to exchange their shares of Common Stock (or other securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, dissolution, liquidation or winding up.

(m) Automatic Conversion.

(1) Each share of Preferred Stock shall automatically be converted into shares of Common Stock, based on the then Applicable Conversion Price, (A) at any time upon the affirmative election of the holders of at least sixty-six and two-thirds percent ($66^2/_3$%) of the outstanding shares of the Preferred Stock, or (B) immediately upon the closing of a firmly underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of Common Stock for the account of the Corporation in which (i) the aggregate pre-money valuation of the Corporation is at least five hundred million dollars ($500,000,000); and (ii) the gross cash proceeds (before underwriting discounts, commissions and fees) are at least fifty million dollars ($50,000,000). Upon such automatic conversion, any declared and unpaid dividends shall be paid in accordance with the provisions of Article 4.B.4.

(2) Upon the occurrence of an event specified in paragraph (1) above, the outstanding shares of Preferred Stock shall be converted automatically without any further action by the holders of such shares and whether or not the certificates representing such shares are surrendered to the Corporation or its transfer agent; provided, however, that the Corporation shall not be obligated to issue certificates evidencing the shares of Common Stock issuable upon such conversion unless the certificates evidencing such shares of Preferred Stock are either delivered to the Corporation or its transfer agent as provided below, or the holder notifies the Corporation or its transfer agent that such certificates have been lost, stolen or destroyed and executes an agreement satisfactory to the Corporation to indemnify the Corporation from any loss incurred by it in connection with such certificates. Upon the occurrence of such automatic conversion of the Preferred Stock the holders of Preferred Stock shall surrender the certificates representing such shares at the office of the Corporation or any transfer agent for the Preferred Stock. Thereupon, there shall be issued and delivered to such holder promptly at such office and in its name as shown on such surrendered certificate or certificates, a certificate or certificates for the number of shares of Common Stock into which such shares of Preferred Stock surrendered were convertible on the date on which such automatic conversion occurred, and the Corporation shall promptly pay in cash or, at the option of the Corporation, Common Stock (at the Common Stock's fair market value determined by the Board as of the date of such conversion), or, at the option of the Corporation, both, all declared and unpaid dividends on such shares of Preferred Stock being converted, to and including the date of such conversion.

(n) Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of Preferred Stock. All shares of Common Stock (including fractions thereof) issuable upon conversion of more than one share of Preferred Stock by a holder thereof shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion would result in the issuance of any fractional share, the Corporation shall, in lieu of issuing any fractional share, pay cash equal to the product of such fraction multiplied by the Common Stock's fair market value (as determined by the Board) on the date of conversion.

(o) Reservation of Stock Issuable Upon Conversion. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E

Preferred Stock. If at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

(p) Notices. Any notice required by the provisions of this Article 4.B.3 shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified, (ii) when sent by confirmed telex or facsimile if sent during normal business hours of the recipient; if not, then on the next business day, (iii) five (5) days after having' been sent by registered or certified mail, return receipt requested, postage prepaid, or (iv) one (1) day after deposit with a nationally recognized overnight courier, having specified next day of delivery, with written verification of receipt. All notices shall be addressed to each holder of record at the address of such holder appearing on the books of the Corporation.

(q) Payment of Taxes. The Corporation shall pay all taxes imposed by the State of Delaware (or any other jurisdiction in which the Company is then located or conducting business) (other than taxes based upon income) and other governmental charges that may be imposed with respect to the issue or delivery of shares of Common Stock upon conversion of any shares of Preferred Stock.

(r) Dilution or Impairment. The Corporation shall not amend its Certificate of Incorporation or participate in any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, for the purpose of avoiding or seeking to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but shall at all times in good faith assist in carrying out all such action as may be reasonably necessary or appropriate in order to protect the conversion rights of the holders of the Preferred Stock against dilution or other impairment.

4. Dividend Rights

(a) Holders of Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, prior and in preference to the holders of any other capital stock of the Company ("Junior Stock"), shall be entitled to receive, when and as declared by the Board of Directors, but only out of funds that are legally available therefore, cash dividends at the rate of eight percent (8%) of the Series C Original Purchase Price, the Series D Original Purchase Price and the Series E Original Purchase Price (each as defined below) per annum on each outstanding share of Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock (as adjusted for any stock splits, reverse stock splits, recapitalizations and similar capital events effecting the number of shares of Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock then outstanding). Such dividends shall be payable only when, as and if declared by the Board of Directors and shall be non-cumulative. Any partial payment will be made among the holders of the Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock ratably in proportion to the payment each such holder is otherwise entitled to receive.

(b) So long as any shares of Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock are outstanding, the Company shall not pay or declare any dividend, whether in cash or property, or make any other distribution on the Junior Stock, or purchase, redeem or otherwise acquire for value any shares of Junior Stock until all dividends on the

Series C Preferred Stock, the Series D Preferred Stock and the Series E Preferred Stock, shall have been paid or declared and set apart, except for:

(1) acquisitions of Common Stock by the Company pursuant to agreements which permit the Company to repurchase such shares at cost upon termination of services to the Company; or

(2) acquisitions of Common Stock in exercise of the Company's right of first refusal to repurchase such shares.

(c) In the event dividends are paid on any share of Junior Stock, the Company shall pay an additional dividend on all outstanding shares of Series C Preferred Stock, Series D Preferred Stock and Series E 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.

(d) The provisions of Article 4.B.4(b) and 4.B.4(c) shall not apply to a dividend payable in Common Stock.

C. Common Stock.

1. Prior Rights of Preferred Stock. The voting, dividend and liquidation rights of the holders of the Common Stock are subject to and qualified by the rights of the holders of the Preferred Stock and any other series of preferred stock as may be issued in accordance with the provisions hereof.

2. Voting Rights. The holders of the Common Stock are entitled to one vote for each share held at all meetings of stockholders. There shall be no cumulative voting.

3. Dividends. Subject to the provisions of Articles 4.B.1(b) and 4.B.4 hereof, dividends may be declared and paid on the Common Stock from funds lawfully available therefor as and when determined by the Board of Directors and subject to any preferential dividend rights of any then outstanding preferred stock.

4. Increases or Decreases. Subject to the provisions of Article 4B.1, the number of authorized shares of Common Stock may be increased or decreased (but not below the number of shares of Common Stock then outstanding or reserved for conversion of the outstanding Preferred Stock) by the affirmative vote of the holders of at least two-thirds ($66^2/_3$%) of the outstanding stock of the Corporation (voting together on an as-if converted basis).

ARTICLE 5. COMPROMISE OR ARRANGEMENT WITH CREDITORS.

Whenever a compromise or arrangement is proposed between the Corporation and its creditors or any class of them and/or between the Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of the Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for the Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for the Corporation under the provisions of Section 279 of Title 8 of the Delaware Code, order a meeting of the creditors or class of creditors and/or of the stockholders or class of stockholders of the Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors and/or of the stockholders or class of stockholders of the Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of the Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application had been made, be binding on all the creditors or

class of creditor, and/or on all the stockholders or class of stockholders, of the Corporation, as the case may be, and also on the Corporation.

ARTICLE 6. DIRECTORS LIABILITY; INDEMNIFICATION.

A. Indemnification. The Corporation shall, to the fullest extent permitted by Section 145 of the General Corporation Law, as the same may be amended and supplemented from time to time, indemnify and advance expenses to, (i) its directors and officers, and (ii) any person who, at the request of the Corporation is or was serving as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, from and against any and all of the expenses, liabilities, or other matters referred to in or covered by said section as amended or supplemented (or any successor), for actions taken in such person's capacity as such a director, officer, employee or agent, and then only to the extent such person is not indemnified for such actions by such other corporation, partnership, joint venture, trust or other enterprise; provided, however, that except with respect to proceedings to enforce rights to indemnification, the by-laws of the Corporation may provide that the Corporation shall indemnify any director, officer or such person in connection with a proceeding (or part thereof) initiated by such director, officer or such person only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation. The Corporation, by action of its Board of Directors, may provide indemnification or advance expenses to employees and agents of the Corporation or other persons only on such terms and condition and to the extent determined by the Board of Directors in its sole and absolute discretion. The indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any by-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in their official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

B. Limitation of Liability. No director of this Corporation shall be personally liable to the Corporation or its stockholders for any monetary damages for breaches of fiduciary duty as a director, notwithstanding any provision of law imposing such liability; provided that this provision shall not eliminate or limit the liability of a director, to the extent that such liability is imposed by applicable law, (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law (iii) under Section 174 or successor provisions of the General Corporation Law; or (iv) for any transaction from which the director derived an improper personal benefit. This provision shall not eliminate or limit the liability of a director for any act or omission if such elimination or limitation is prohibited by the General Corporation Law. No amendment to or repeal of this provision shall apply to or have any effect on the liability or alleged liability of any director for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal. If the General Corporation Law is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law, as so amended.

C. Prospective Amendment. Any repeal or modification of this Article 6 shall be prospective and shall not affect the rights under this Article 6 in effect at the time of the alleged occurrence of any act or Omission to act giving rise to liability or indemnification.

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Executed in the name of the Corporation by its President, who declares, affirms, acknowledges and certifies under penalties of perjury, that this is his free act and deed and the facts stated herein are true.

Dated: [ ], 2003

COGENT COMMUNICATIONS GROUP, INC.

David Schaeffer
President

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Appendix B

INDEX TO FINANCIAL STATEMENTS

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2001 AND SEPTEMBER 30, 2002

(IN THOUSANDS, EXCEPT SHARE DATA)

	December 31, 2001	September 30, 2002 (Unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 49,017	$ 51,669
Short term investments ($430 restricted, at September 30, 2002)	1,746	2,413
Prepaid expenses and other current assets	2,171	3,665
Accounts receivable, net of allowance for doubtful accounts of $112, and $3,847, respectively	1,156	5,432

	December 31, 2001	September 30, 2002 (Unaudited)
Total current assets	54,090	63,179
Property and equipment:		
Property and equipment	249,057	339,012
Accumulated depreciation and amortization	(13,275)	(34,076)
Total property and equipment, net	235,782	304,936
Intangible assets:		
Intangible assets	11,740	23,373
Accumulated amortization	(1,304)	(6,580)
Total intangible assets, net	10,436	16,793
Other assets	19,461	20,557
Total assets	$ 319,769	$ 405,465
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 3,623	$ 8,294
Accrued liabilities	3,462	24,761
Current maturities, capital lease obligations	426	3,794
Total current liabilities	7,511	36,849
Cisco credit facility	181,312	223,556
Convertible subordinated notes, net of unamortized discount of $79,745		37,235
Capital lease obligations, net of current	20,732	50,884
Other long-term liabilities		1,206
Total liabilities	209,555	349,730
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 $30,061	25,892	25,892
Convertible preferred stock, Series B, $0.001 par value; 20,000,000 shares authorized; 19,370,223 shares issued and outstanding; liquidation preference of $99,168	90,009	88,009
Convertible preferred stock, Series C, $0.001 par value; 52,173,643 shares authorized; 49,773,402 shares issued and outstanding; liquidation preference of $100,000	61,345	61,345
Common stock, $0.001 par value; 21,100,000 shares authorized; 1,409,814 and 3,483,838 shares issued and outstanding, respectively	1	4
Additional paid-in capital	38,724	49,322
Deferred compensation	(11,081)	(6,985)
Stock purchase warrants	8,248	9,013
Accumulated other comprehensive income (loss)		(12)
Accumulated deficit	(102,924)	(170,853)
Total stockholders' equity	110,214	55,735
Total liabilities and stockholders' equity	$ 319,769	$ 405,465

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

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2002

(IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)

	Three Months Ended September 30, 2001 (Unaudited)	Three Months Ended September 30, 2002 (Unaudited)
Net service revenue (Note 1)	$ 657	$ 15,960
Operating expenses:		
Network operations (including $56 of amortization of deferred compensation in 2002, none in 2001)	5,034	14,243
Selling, general, and administrative (including $798 of amortization of deferred compensation in 2002, none in 2001)	7,589	9,654
Depreciation and amortization	2,969	8,938
Total operating expenses	15,592	32,835
Operating loss	(14,935)	(16,875)
Interest income and other	435	226
Interest expense	(2,948)	(8,760)
Net loss applicable to common stock	**$ (17,448)**	**$ (25,409)**
Basic and diluted net loss per common share	$ (12.39)	$ (7.33)
Weighted-average common shares (basic and diluted)	1,408,614	3,464,403

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

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2002

(IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)

	Nine Months Ended September 30, 2001 (Unaudited)	Nine Months Ended September 30, 2002 (Unaudited)
Net service revenue (Note 1)	$ 747	$ 38,079
Operating expenses:		
Network operations (including $180 of amortization of deferred compensation in 2002, none in 2001)	15,473	37,158
Selling, general, and administrative (including $2,313 of amortization of deferred compensation in 2002, none in 2001)	21,756	26,021
Depreciation and amortization	5,955	23,981
Total operating expenses	43,184	87,160

	Nine Months Ended September 30, 2001 (Unaudited)	Nine Months Ended September 30, 2002 (Unaudited)
Operating loss	(42,437)	(49,081)
Interest income and other	1,763	2,136
Interest expense	(4,756)	(25,512)
Loss before extraordinary item	$ (45,430)	$ (72,457)
Extraordinary gain Allied Riser merger		4,528
Net loss applicable to common stock	$ (45,430)	$ (67,929)
Net loss per common share:		
Loss before extraordinary item	$ (32.33)	$ (22.80)
Extraordinary gain		1.42
Basic and diluted net loss per common share	$ (32.33)	$ (21.38)
Weighted-average common shares (basic and diluted)	1,405,333	3,177,577

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

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2002
(IN THOUSANDS)

	Nine Months Ended September 30, 2001 (Unaudited)	Nine Months Ended September 30, 2002 (Unaudited)
Cash flows from operating activities:		
Net loss	$ (45,430)	$ (67,929)
Adjustments to reconcile net loss to net cash used in operating activities		
Extraordinary gain Allied Riser merger		(4,528)
Depreciation and amortization	5,955	23,981
Amortization of debt costs	21	1,988
Amortization of debt discount convertible notes		4,481
Amortization of deferred compensation		2,493
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(823)	(3,066)
Prepaid expenses and other current assets	5,455	3,125
Accrued interest payable	1,056	13,908
Other assets	(469)	(2,693)
Accounts payable, accrued and other liabilities	3,944	1,432
Net cash used in operating activities	(30,291)	(26,808)
Cash flows from investing activities:		
Purchases of property and equipment	(72,157)	(56,871)
Purchases of short term investments		(667)
Acquired cash and cash equivalents Allied Riser merger		70,431

	Nine Months Ended September 30, 2001 (Unaudited)	Nine Months Ended September 30, 2002 (Unaudited)
Purchase of STOC minority interests		(3,617)
Purchase of intangible assets		(167)
Purchase of NetRail assets	(11,740)	
Purchase of PSINet assets		(9,450)
Net cash used in investing activities	(83,897)	(341)
Cash flows from financing activities:		
Borrowings under Cisco credit facility	69,376	31,914
Proceeds from option exercises	15	
Repayment of capital lease obligations	(10,268)	(2,102)
Net cash provided by financing activities	59,123	29,812
Effect of exchange rate changes on cash		(11)
Net (decrease) increase in cash and cash equivalents	(55,065)	2,652
Cash and cash equivalents, beginning of period	65,593	49,017
Cash and cash equivalents, end of period	$ 10,528	$ 51,669
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 9,014	$ 10,438
Cash paid for income taxes		
Non-cash financing activities		
Capital lease obligations incurred	22,081	26,700
Borrowing under credit facility for payment of loan costs and interest		10,331
Allied Riser Merger		
Fair value of assets acquired		$ 74,535
Less: valuation of common stock, options & warrants issued		(10,967)
Less: extraordinary gain		(4,528)
Fair value of liabilities assumed		$ 59,040
NetRail Acquisition		
Fair value of assets acquired	12,090	
Less: cash paid	(11,740)	
Fair value of liabilities assumed	350	
PSINet Acquisition		
Fair value of assets acquired		16,602
Less: cash paid		(9,450)
Fair value of liabilities assumed		7,152

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

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2001, AND 2002
(Unaudited)

1. Organization and General:

Description of Business and Acquisitions

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

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

Asset Purchase Agreement PSINet, Inc.

In January 2002, the Company entered into a due diligence agreement with PSINet, Inc. ("PSINet"). This agreement allowed the Company to undertake due diligence related to certain of PSINet's network operations in the United States. The Company paid a $3.0 million fee in January 2002 to PSINet in connection with this arrangement. In February 2002, the Company and PSINet entered into an Asset Purchase Agreement ("APA"). Pursuant to the APA, approved on March 27, 2002 by the bankruptcy court overseeing the PSINet bankruptcy, the Company acquired certain of PSINet's assets and certain liabilities related to its operations in the United States for $9.5 million in cash. The acquisition closed on April 2, 2002. The $3.0 million payment under the due diligence agreement was applied toward this amount resulting in a $6.5 million cash payment at closing. The acquired assets include certain of PSINet's accounts receivable, rights to 10,000 route miles pursuant to indefeasible rights of use, and intangible assets, including, customer contracts, settlement-free peering rights and the PSINet trade name. Assumed liabilities include certain leased circuit commitments, facilities leases, customer contractual commitments and collocation arrangements.

The PSINet acquisition enabled the Company to immediately incorporate a revenue stream from a set of products that the Company believes complement its core offering of 100 Mbps Internet connectivity for $1,000 per month and reduced its costs of network operations from the acquisition of settlement-free peering rights. The Company plans to support and build on the PSINet brand name

that, the Company believes, is one of the most recognizable ISPs in the country. Under the PSINet label, Cogent is offering PSINet services, including Internet connectivity.

Merger Agreement Allied Riser Communications Corporation

On February 4, 2002, the Company acquired Allied Riser Communications Corporation ("Allied Riser"). Allied Riser provided broadband data and video communication services to small- and medium-sized businesses located in selected buildings in North America, including Canada. Upon the closing of the merger on February 4, 2002, Cogent issued approximately 2.0 million shares, or 13.4% of its common stock, on a fully diluted basis, to the existing Allied Riser stockholders and became a public company listed on the American Stock Exchange. The acquisition of Allied Riser provided the Company with necessary in-building networks as well as pre-negotiated building access rights with building owners and real estate investment trusts across the United States and in Toronto, Canada. Prior to the merger, Allied Riser had ceased providing its retail services to its customers. The Company is utilizing the Allied Riser in-building network and building access rights to provide its high speed Internet access service. The acquisition enabled the Company to accelerate its business plan and increase its footprint in the markets it serves.

NetRail Inc.

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the unaudited condensed consolidated financial statements reflect all normal recurring adjustments that the Company considers necessary for the fair presentation of the results of operations and cash flows for the interim periods covered, and of the financial position of the Company at the date of the interim consolidated balance sheet. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The operating results for interim periods are not necessarily indicative of the operating results for the entire year. While the Company believes that the disclosures made are adequate to not make the information misleading, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes in the Company's Annual Report on Form 10-K.

The accompanying unaudited condensed consolidated financial statements include all wholly owned subsidiaries. All inter-company accounts and activity have been eliminated. Shared Technologies of Canada ("STOC") is owned by the Company's wholly owned subsidiary, ARC Canada. In March 2002, the shareholders representing the minority interest of STOC notified the Company that they had elected to exercise their rights to put their shares to the Company as provided under their shareholders' agreements. The Company paid approximately $3.6 million in April 2002 to purchase these minority interests.

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

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the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 intra-city dark fiber and multi-tenant office buildings, the availability and performance of the Company's network equipment, the availability of additional capital, the ability to meet the financial and operating covenants under its credit facility, the Company's ability to integrate acquired businesses and purchased assets into its operations and realize planned synergies, the extent to which acquired businesses and assets are able to meet the Company's expectations and projections, the Company's ability to successfully market its products and services, the Company's ability to retain and attract key employees, and the Company's ability to manage its growth, among other factors. Although management believes that the Company will successfully mitigate these risks, management cannot give assurances that it will be able to do so or that the Company will ever operate profitably.

One of the Company's suppliers of metropolitan fiber optic facilities, Metromedia Fiber Networks ("MFN"), filed for bankruptcy in May 2002 under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court. This has impacted the Company's operations by decreasing our ability to add new metropolitan fiber rings from MFN and the Company's ability to add new buildings to existing MFN rings. However, as the Company has several other providers of metropolitan fiber optic facilities the impact has not been material to our operations.

On April 22, 2002, Williams Communications Group, Inc. filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. Williams Communications LLC, a wholly owned subsidiary of Williams Communications Group, has provided the Company with its national backbone fiber rings. Williams Communications LLC did not file a bankruptcy petition. On October 16, 2002, Williams announced that it has emerged from bankruptcy as WilTel Communications Group, Inc.

MFN's and Williams' financial difficulties are characteristic of the telecommunications industry today. The Company's solution for metropolitan networks is to have a large number of providers and to develop the ability to construct its own fiber optic connections to the buildings the Company serves.

The Company has obtained $177 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"). In connection with the Allied Riser merger, the Company acquired $70.4 million of cash and cash equivalents and assumed the obligations of Allied Riser including its convertible subordinated notes due in June 2007 totaling $117.0 million. 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, the availability under the Facility (subject to continued covenant compliance) and the funds acquired in the Allied Riser merger, will be sufficient to fund the Company's expected activities through fiscal 2003. Although management believes that these expectations are reasonable, actual results could differ materially. The Company's future financial condition and results of operations are subject to change and to inherent risks and uncertainties. .

Financial Instruments

The Company is party to letters of credit totaling $4.8 million as of September 30, 2002. These letters of credit are secured by certificates of deposit and commercial paper investments of $4.9 million that are restricted and included in short-term investments and deposits and other assets. No claims

have been made against these financial instruments. Management does not expect any losses from the resolution of these financial instruments and is of the opinion that the fair value is zero since performance is not likely to be required.

At September 30, 2001 and 2002, the carrying amount of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and accrued expenses approximated fair value because of the short maturity of these instruments. The interest rate on the Company's credit facility resets on a quarterly basis; accordingly, as of September 30, 2002, the fair value of the Company's credit facility approximated its carrying amount. The Allied Riser convertible subordinated notes due in June 2007 have a face value of $117.0 million. The notes were recorded at their fair value of approximately $32.7 million at the merger date. The discount is accreted to interest expense through the maturity date. The fair value of the notes at September 30, 2002, was approximately $31.1 million.

Reclassifications

Certain amounts in the December 31, 2001 financial statements have been reclassified in order to conform to the 2002 financial statement presentation. Such reclassifications had no impact on previously reported net loss or net stockholders' equity.

Comprehensive Income (Loss)

Statement of Financial Accounting Standard ("SFAS") No. 130, "Reporting of Comprehensive Income" requires "comprehensive income" and the components of "other comprehensive income" to be reported in the financial statements and/or notes thereto. The Company did not have any significant components of "other comprehensive income," until the nine months ended September 30, 2002. Accordingly, reported net loss is the same as "comprehensive loss" for all other periods presented (amounts in thousands).

		Nine months ended September 30, 2002
Net loss	$	(67,929)
Currency translation		(12)
Comprehensive loss		(67,941)

Basic and Diluted Net Loss Per Common Share

For the three and nine months ended September 30, 2001 and September 30, 2002, options to purchase 565,570 and 1,086,150 shares of common stock at weighted-average exercise prices of $10.59 and $4.62 per share, respectively, are not included in the computation of diluted earnings per share as they are anti-dilutive. For the three and nine months ended September 30, 2001, 45,809,783, shares of preferred stock, which were convertible into 4,580,978 shares of common stock, were not included in the computation of diluted earnings per share as a result of their anti-dilutive effect. For the three and nine months ended September 30, 2002, 95,143,625, shares of preferred stock, which were convertible into 10,091,261 shares of common stock, were not included in the computation of diluted earnings per share as a result of their anti-dilutive effect. For the three and nine months ended September 30, 2001 and September 30, 2002, warrants for 222,750 and 854,941 shares of common stock, respectively, were not included in the computation of diluted earnings per share as a result of their anti-dilutive effect. For the three and nine months ended September 30, 2002, approximately 245,000 shares of common stock issuable on the conversion of the Allied Riser convertible subordinated notes, were not included in the computation of diluted earnings per share as a result of their anti-dilutive effect.

International Operations

The Company began recognizing revenue from operations in Canada through its wholly owned subsidiary, ARC Canada effective with the closing of the Allied Riser merger on February 4, 2002. All revenue is translated into United States dollars. Revenue for ARC Canada for the period from February 4, 2002 to September 30, 2002 was approximately $3.1 million. ARC Canada's total assets were approximately $3.9 million at September 30, 2002.

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.

In September 2002, the Company invoiced certain customers for approximately $1.3 million representing amounts contractually due for unfulfilled minimum contractual obligations. The Company has recognized a corresponding sales allowance of $1.3 million against this revenue resulting in zero net revenue recognized. The Company will recognize net revenue as the amounts are collected as cash. The Company intends to vigorously seek payment of these amounts.

Recent Accounting Pronouncements

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

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes FASB No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," but retains that statement's fundamental provisions for recognition and measurement of impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. SFAS No. 144 also supersedes the accounting/reporting provisions of APB Opinion No. 30 for segments of a business to be disposed of, but retains APB 30's requirement to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. The adoption of this statement on January 1, 2002 did not have a material impact on our operations or financial position.

In May 2002, the FASB issued SFAS No. 145. SFAS No. 145 rescinded three previously issued statements and amended SFAS No. 13, "Accounting for Leases." The statement provides reporting standards for debt extinguishments and provides accounting standards for certain lease modifications that have economic effects similar to sale-leaseback transactions. The statement is effective for certain lease transactions occurring after May 15, 2002 and all other provisions of the statement shall be effective for financial statements issued on or after May 15, 2002. Adoption of this standard did not have any impact on our financial position or the presentation of any transactions.

On July 29, 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. Previous accounting guidance was provided by EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 replaces Issue 94-3. SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

2. Pro Forma Amounts

The acquisition of the assets of NetRail, Inc., and PSINet and the merger with Allied Riser were recorded in the accompanying financial statements under the purchase method of accounting. The purchase price allocations are preliminary and further refinements may be made. The operating results related to the acquired assets of NetRail, Inc. and PSINet and the merger with Allied Riser have been included in the consolidated statements of operations from the dates of acquisition. The NetRail acquisition closed on September 6, 2001. The Allied Riser merger closed on February 4, 2002. The PSINet acquisition closed on April 2, 2002.

If the NetRail, Allied Riser and PSINet acquisitions had taken place at the beginning of 2001 and 2002 the unaudited pro forma combined results of the Company for the nine months ended September 30, 2001 and 2002 would have been as follows (amounts in thousands, except per share amounts).

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2002
Revenue	$ 68,228	$ 52,574
Net loss before extraordinary items	(420,321)	(86,990)
Loss per share before extraordinary items basic and diluted	$ (123.08)	$ (25.23)

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, Allied Riser and PSINet acquisitions had been effective at the beginning of 2001 and 2002.

3. Property and Equipment:

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

	September 30, 2002
Owned assets:	
Network equipment	$ 187,338
Software	6,536
Office and other equipment	2,570
Leasehold improvements	30,107
System infrastructure	1,189
Construction in progress	5,543
	233,283
Less Accumulated depreciation and amortization	(28,591)
	204,692
Assets under capital leases:	
IRUs	105,729
Less Accumulated depreciation and amortization	(5,485)
	100,244
Property and equipment, net	$ 304,936

Capitalized Interest

For the nine months ended September 30, 2001 and 2002, the Company capitalized interest of $3,975,000 and $600,000, respectively.

4. Accrued Liabilities:

Accrued liabilities consist of the following (in thousands):

	September 30, 2002
General operating expenditures	$ 17,405
Payroll and benefits	1,019
Taxes	1,469
Interest	3,368
Deferred revenue	1,500
Total	$ 24,761

5. Intangible Assets:

Intangible assets consist of the following (in thousands):

	September 30, 2002
Peering arrangements	$ 15,740
Customer contracts	5,575
Trade names	1,764
Non-compete agreement	294
Total	23,373
Less accumulated amortization	(6,580)
Intangible assets, net	$ 16,793

Intangible assets are being amortized over periods ranging from 24 to 60 months. Amortization expense for the three and nine months ended September 30, 2002 was approximately $2.2 million and $5.3 million, respectively. Future amortization expense related to these intangible assets is expected to be $8.5 million, $7.0 million, $1.1 million, $59,000, and $29,000 for the twelve-month periods ending September 30, 2003, 2004, 2005, 2006 and 2007, respectively.

6. Other Assets:

Other assets consist of the following (in thousands):

	September 30, 2002
Prepaid expenses	$ 1,256
Deposits	5,522
Deferred financing costs, net	13,779
Total	$ 20,557

7. Long-term Debt:

In March 2000, Cogent entered into a $280 million credit facility with Cisco Capital. In March 2001, the credit facility was increased to $310 million. In October 2001, Cogent entered into a new agreement for $409 million (the "Facility"). This credit facility replaced the existing $310 million credit facility between Cisco Capital and Cogent. The Facility is available to finance the purchases of up to $270 million of Cisco network equipment, software and related services, to fund up to $64 million of working capital, and to fund up to $75 million of interest and fees related to the Facility. On January 31, 2002, the Facility was amended to modify certain covenants in connection with the Company's merger with Allied Riser. On April 17, 2002, the Facility was again amended to modify certain covenants in connection with the Company's acquisition of certain assets of PSINet. On November 6, 2002, the Facility was again amended to modify certain provisions and covenants that are reflected in the description below. If the Facility becomes unavailable, at any point in time, the Company may not have sufficient funds to fund current or anticipated levels of operation under its current business plan.

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. 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. The weighted-average interest rate on all borrowings

for the nine months ending September 30, 2002 was approximately 6.8 percent and was 6.8 percent at September 30, 2002. 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.

Borrowings under the Facility are available in increments subject to Cogent's satisfaction of certain operational and financial covenants over time. Up to $40 million was available for additional equipment loans through September 30, 2002, of which $33.4 million was borrowed as of September 30, 2002. An additional $91.6 million of equipment loans became available on October 1, 2002. Up to $20 million was available to fund interest and fees related to the Facility through September 30, 2002 of which $16.8 million was borrowed as of September 30, 2002. An additional $55 million for funding interest and fees related to the Facility became available on October 1, 2002. An additional $10 million in working capital loans became available on October 1, 2002 and was borrowed in November 2002. An additional $25 million of working capital becomes available in $5.0 million monthly increments from May 2003 until September 2003. The aggregate balance of working capital loans is limited to 35 percent of outstanding equipment loans. Additional borrowings under the Facility for the purchase of products and working capital are available until December 31, 2004. Additional borrowings under the Facility for the funding of interest and fees are available until December 31, 2005. The Facility matures on December 31, 2008.

At September 30, 2002, there were $177.8 million of equipment loans, $29.0 million of working capital loans and $16.8 million of interest and fee loans outstanding.

Maturities of borrowings under the Facility are as follows (in thousands):

For the twelve months ending September 30,		
2003	$	
2004		
2005		8,359
2006		58,676
2007		74,519
Thereafter		82,002
	$	223,556

Allied Riser Convertible Subordinated Notes

On June 28, 2000, Allied Riser completed the issuance and sale in a private placement of an aggregate of $150.0 million in principal amount of its 7.50% convertible subordinated notes due June 15, 2007 (the "Notes"). At the closing of the merger between Allied Riser and the Company approximately $117.0 million of the Notes were outstanding. The Notes were convertible at the option of the holders into shares of Allied Riser's common stock at an initial conversion price of approximately 65.06 shares of Allied Riser common stock per $1,000 principal amount. The conversion ratio is adjusted upon the occurrence of certain events. The conversion rate was adjusted to approximately 2.09 shares of the Company's common stock per $1,000 principal amount in connection with the merger. Interest is payable semiannually on June 15 and December 15, and is payable, at the election of the Company, in either cash or registered shares of the Company's common stock. The Notes are redeemable at the Company's option at any time on or after the third business day after June 15, 2004, at specified redemption prices plus accrued interest.

Maturities of the Notes are as follows (in thousands):

For the twelve months ending September 30,		
2003	$	
2004		
2005		
2006		
2007		116,980
	$	116,980

8. Commitments and Contingencies:

Capital Leases

The Company has entered into lease agreements with several providers for intra-city and intercity dark fiber primarily under 15-25 year IRUs. These IRUs connect the Company's national backbone fiber with the multi-tenant office buildings and the customers served by the Company. Once the Company has accepted the related fiber route, leases of intra-city and inter-city fiber-optic rings that meet the criteria for treatment as capital leases are recorded as a capital lease obligation and IRU asset. The Company acquired certain capital lease agreements related to equipment purchases in connection with the Allied Riser merger.

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

For the twelve months ending September 30,		
2003	$	7,587
2004		7,256
2005		6,049
2006		5,655
2007		4,926
Thereafter		69,006
Total minimum lease obligations		100,479
Less amounts representing interest		(45,801)
Present value of minimum lease obligations		54,678
Current maturities		(3,794)
Capital lease obligations, net of current maturities	$	50,884

Fiber Leases and Construction Commitments

The Company has agreements with several fiber providers for the construction of laterals to connect office buildings to metro fiber rings and for the leasing of these metro fiber rings and the lateral fiber. In June 2002, the Company expanded its inter-city network by entering into a lease agreement to that connected its network to the Toronto, Ontario market. These leases are generally for a period of 15-20 years and include renewal periods. The future commitments under these arrangements were approximately $31.9 million at September 30, 2002.

Equipment Purchase Commitment

In March 2000, the Company entered into a five-year agreement to purchase from Cisco minimum annual amounts of equipment, professional services, and software. In June 2000, the agreement was amended to increase the Company's previous commitment to purchase

$150.1 million over four years to

$212.2 million over five years. In October 2001, the commitment was increased to purchase $270 million until December 2004. As of September 30, 2002, the Company has purchased approximately $177.8 million towards this commitment.

Litigation

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.

Vendor Claims

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 $18.8 million, 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 has filed its answer generally denying Hewlett-Packard's claims. The Company intends to continue to vigorously contest this lawsuit.

On January 16, 2002, Allied Riser received a letter from Hewlett-Packard Company alleging that certain unspecified contracts are in arrears, and demanding payment in the amount of $10.0 million. The letter does not discuss the basis for the claims or whether the funds sought are different from or in addition to the funds sought in the July 26, 2001 lawsuit and determined that they relate to lease obligations. Allied Riser, through its legal counsel, has made an inquiry of Hewlett-Packard's counsel to determine the basis for the claims in the letter. The Company intends to continue to vigorously contest this claim.

Management believes that the amounts, if any, owed to Hewlett-Packard are significantly less than Hewlett-Packard's claims.

One of the Company's subsidiaries, Allied Riser Operations Corporation, is involved in a dispute with its former landlord in Dallas, Texas. Allied Riser terminated the lease in March 2002 and the dispute is over whether it had the right to do so. The landlord has alleged that a default under the lease has occurred. Allied Riser Operations Corporation has informed the landlord that the lease was terminated as provided by its terms. On July 15, 2002, the landlord filed suit alleging that Allied Riser did not have the right to terminate the lease and claiming damages.

Note Holders

The three matters discussed below are, management believes, related to an effort by a group of bondholders to pressure the Company into buying back the notes they hold. The bondholders involved are a group of hedge funds that own (the Company believes) more than 40% of the 7.50% convertible subordinated notes due 2007 that were issued by Allied Riser Communications Corporation in June 2000. Allied Riser is now a subsidiary of the Company and the Company has become a co-obligor on the bonds. Beginning in August 2001 these hedge funds have attempted to force the repurchase of the notes they hold.

On December 12, 2001, Allied Riser announced that certain holders of its 7.50% convertible subordinated notes due 2007 filed notices as a group with the Securities and Exchange Commission (SEC) on Schedule 13D including copies of documents indicating that such group had filed suit in Delaware Chancery Court on December 6, 2001 against Allied Riser and its board of directors. The suit alleges, among other things, breaches of fiduciary duties and default by Allied Riser under

the indenture related to the notes, and requested injunctive relief to prohibit Allied Riser's merger with the Company. The plaintiffs amended their complaint on January 11, 2002 and subsequently served it on Allied Riser. On January 28, 2002, the Court held a hearing on a motion by the plaintiffs to preliminarily enjoin the merger. On January 31, 2002, the Court issued a Memorandum Opinion denying that motion. On July 23, 2002, the plaintiffs filed a motion for partial summary judgment in which they alleged that the merger was a "change of control" as defined by the indenture. On November 7, 2002, the Court issued a ruling denying that motion. Instead, the Court determined that there had not been a "change of control", as defined. This decision may be appealed by the plaintiffs. Management believes that the suit is without merit, and intends to continue to vigorously contest it.

On February 21, 2002, the Division of Enforcement of the SEC requested that the Company voluntarily provide it certain documents related to the fairness opinion delivered to the Allied Riser board of directors by Allied Riser's financial advisor, Houlihan Lokey Howard & Zukin on August 28, 2001, and the Company's Series C preferred stock financing. The Company has complied with the request. The SEC has not informed the Company as to the reason for its request. However, management believes that the SEC inquiry was caused by the submission of a letter to the SEC by counsel to the hedge fund plaintiffs in the Delaware Chancery Court case described above questioning the disclosure in the registration statement and prospectus filed in conjunction with the merger of Allied Riser into a subsidiary of the Company. The Company has not heard from the SEC since the Company provided the documents.

On March 27, 2002, certain holders of Allied Riser's notes filed an involuntary bankruptcy petition under Chapter 7 of the United States Bankruptcy Code against Allied Riser in United States Bankruptcy Court for the Northern District of Texas, Dallas Division. Three of the four petitioners are plaintiffs in the Delaware Chancery Court case described above and the fourth is also a hedge fund. Petitioners contend that the acquisition of Allied Riser was a change of control that entitled them to declare the 7.5% convertible subordinated notes were accelerated and are now due and payable. The petition does not name the Company as a party. Management notes, however, that pursuant to the terms of the supplemental indenture related to the notes, the Company is a co-obligor of the notes. On June 11, 2002 the Bankruptcy Court Judge ruled in Allied Riser's favor stating that the involuntary bankruptcy petition would be dismissed. On August 8, 2002, the judge issued a written order dismissing the petition.

Other Litigation

The Company is subject to claims and lawsuits arising in the ordinary course of business. Management believes that the outcome of any such proceedings to which we are a party will not have a material adverse effect on the Company.

Operating Leases and License Agreements

The Company leases office space, network equipment sites, and facilities under operating leases. The Company also enters into building access agreements with the landlords of its targeted multi- tenant office buildings. The Company acquired building access agreements and operating leases for

facilities in connection with the Allied Riser merger. Future minimum annual commitments under these arrangements are as follows (in thousands):

Twelve months ending September 30,		
2003	$	18,323
2004		18,217
2005		16,195
2006		13,167
2007		9,784
Thereafter		40,792
	$	116,478

Connectivity, Maintenance and Transit Agreements

In order to provide service, the Company has commitments with service providers to connect to the Internet. 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. In certain cases, the Company connects its customers and the buildings it serves to its national fiber-optic backbone using intra-city and inter-city fiber under operating lease commitments from various providers under contracts that range from month-to-month charges to 36-month terms.

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

Twelve months ending September 30,		
2003	$	9,858
2004		4,514
2005		3,577
2006		3,649
2007		3,721
Thereafter		58,181
	$	83,500

9. Stockholders' Equity:

On February 4, 2002, the Company issued approximately 2.0 million shares of its common stock to Allied Riser shareholders in connection with the merger. This represented approximately 0.0321679 shares of the Company's common stock in exchange for each share of Allied Riser's common stock, or approximately 13.4% of the Company's common stock, on a fully diluted basis. The Company also assumed Allied Risers outstanding warrants and options for approximately 150,000 and 5,000 shares, of the Company's common stock, respectively, on an as-converted basis.

In August 2002, one of the Company's holders of Series B preferred stock converted 439,560 shares of Series preferred stock into 57,050 shares of common stock.

10. 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 $301,000 for the nine months ended September 30, 2002 in rent to this entity.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Cogent Communications Group, Inc., and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Cogent Communications Group, Inc. (a Delaware corporation), and Subsidiaries (together the Company) as of December 31, 2000 and 2001, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the period from inception (August 9, 1999) to December 31, 1999, and for the years ended December 31, 2000 and 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cogent Communications Group, Inc., and Subsidiaries as of December 31, 2000 and 2001, and the results of their operations and their cash flows for the period from inception (August 9, 1999) to December 31, 1999, and for the years ended December 31, 2000 and 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

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

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2000 AND 2001
(IN THOUSANDS, EXCEPT SHARE DATA)

	2000	2001
Assets		
Current assets:		
Cash and cash equivalents	$ 65,593	$ 49,017
Short term investments		1,746
Prepaid expenses and other current assets	3,281	2,171
Accounts receivable, net of allowance for doubtful accounts of $112 in 2001		1,156
Total current assets	68,874	54,090
Property and equipment:		
Property and equipment	111,991	249,057
Accumulated depreciation and amortization	(338)	(13,275)
Total property and equipment, net	111,653	235,782
Intangible assets:		
Intangible assets		11,740
Accumulated amortization		(1,304)
Total intangible assets, net		10,436
Other assets	7,213	19,461
Total assets	$ 187,740	$ 319,769
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 2,601	$ 3,623
Accrued liabilities	2,955	3,462
Current maturities, capital lease obligations	10,697	426
Total current liabilities	16,253	7,511
Cisco credit facility	67,239	181,312
Capital lease obligations, net of current		20,732
Total liabilities	83,492	209,555
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 $29,417	25,892	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 $99,012	90,009	90,009
Convertible preferred stock, Series C, $0.001 par value; 52,173,463 shares authorized; 49,773,402 shares issued and outstanding in 2001: none in 2000;		61,345

	2000	2001
liquidation preference of $100,000		
Common stock, $0.001 par value; 21,100,000 shares authorized; 1,400,698 and 1,409,814 shares issued and outstanding, respectively	1	1
Additional paid-in capital	189	35,490
Deferred compensation		(7,847)
Stock purchase warrants		8,248
Accumulated deficit	(11,843)	(102,924)
Total stockholders' equity	104,248	110,214
Total liabilities and stockholders' equity	$ 187,740	$ 319,769

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 YEARS ENDED DECEMBER 31, 2000 AND 2001
(IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)

	1999	2000	2001
Service revenue	$	$	$ 3,018
Operating expenses:			
Network operations (including $307 of amortization of deferred compensation in 2001)		3,040	20,297
Selling, general, and administrative (including $2,958 of amortization of deferred compensation in 2001)	82	10,845	30,280
Depreciation and amortization		338	13,535
Total operating expenses	82	14,223	64,112
Operating loss	(82)	(14,223)	(61,094)
Interest income		3,433	1,914
Interest expense		(1,105)	(7,945)
Other income		134	212
Net loss	$ (82)	$ (11,761)	$ (66,913)
Beneficial conversion of preferred stock			(24,168)
Net loss applicable to common stock	$ (82)	$ (11,761)	$ (91,081)
Basic and diluted net loss per common share	$ (0.06)	$ (8.51)	$ (64.78)
Weighted-average common shares (basic and diluted)	1,360,000	1,382,360	1,406,007

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 YEARS ENDED DECEMBER 31, 2000 AND 2001
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	Common stock					Convertible preferred stock Series A		Convertible preferred stock Series B		Convertible preferred stock Series C			
	Shares	Amount	Additional paid-in capital	Deferred compensation	Stock purchase warrants	Shares	Amount	Shares	Amount	Shares	Amount	Accumulated deficit	Total stockholders' equity
Balance, August 9, 1999 (date of inception)		$	$	$	$		$		$		$	$	$
Issuance of common stock	1,360,000	1	99										100
Net loss												(82)	(82)
Balance, December 31, 1999	1,360,000	1	99									(82)	18
Exercises of stock options	40,698		90										90
Issuance of Series A convertible preferred stock, net						26,000,000	25,892						25,892
Issuance of Series B convertible preferred stock, net								19,809,783	90,009				90,009
Net loss												(11,761)	(11,761)
Balance, December 31, 2000	1,400,698	1	189			26,000,000	25,892	19,809,783	90,009			(11,843)	104,248
Exercises of stock options	9,116		21										21
Issuance of stock purchase warrants					8,248								8,248
Issuance of Series C convertible preferred stock, net										49,773,402	61,345		61,345
Deferred compensation			11,112	(11,112)									
Beneficial conversion Series B convertible preferred stock			24,168									(24,168)	
				3,265									3,265

						Convertible preferred stock Series A		Convertible preferred stock Series B		Convertible preferred stock Series C			
Amortization of deferred compensation													
Net loss												(66,913)	(66,913)
Balance at December 31, 2001	1,409,814	$ 1	$ 35,490	$ (7,847)	$ 8,248	26,000,000	$ 25,892	19,809,783	$ 90,009	49,773,402	$ 61,345	$ (102,924)	$ 110,214

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

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 YEARS ENDED DECEMBER 31, 2000 AND 2001
(IN THOUSANDS)

	1999	2000	2001
Cash flows from operating activities:			
Net loss	$ (82)	$ (11,761)	$ (66,913)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation and amortization, including debt costs		338	13,594
Amortization of deferred compensation			3,265
Changes in assets and liabilities:			
Accounts receivable			(1,156)
Prepaid expenses and other current assets		(3,281)	1,107
Other assets		(7,213)	(2,660)
Accounts payable and accrued liabilities	7	5,547	5,977
Net cash used in operating activities	(75)	(16,370)	(46,786)
Cash flows from investing activities:			
Purchases of property and equipment		(80,989)	(118,020)
Purchases of short term investments			(1,746)
Acquisition, including purchases of intangible assets			(11,886)
Net cash used in investing activities		(80,989)	(131,652)
Cash flows from financing activities:			
Borrowings under Cisco credit facility		67,239	107,632
Collection of note from stockholder		25	
Proceeds from issuance of common stock	75		
Proceeds from option exercises		90	21
Repayment of capital lease obligations		(37,156)	(12,754)
Deferred equipment discount		16,853	5,618
Issuances of preferred stock, net of issuance costs		115,901	61,345
Net cash provided by financing activities	75	162,952	161,862
Net increase (decrease) in cash and cash equivalents		65,593	(16,576)
Cash and cash equivalents, beginning of year			65,593

	1999	2000	2001
Cash and cash equivalents, end of year	$	$ 65,593	$ 49,017
Supplemental disclosures of cash flow information:			
Cash paid for interest	$	$ 1,736	$ 8,943
Cash paid for income taxes			
Non-cash financing activities			
Capital lease obligations incurred		47,855	23,990
Warrants issued in connection with credit facility			8,248
Borrowing under credit facility for payment of loan costs and interest			6,441

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, 2000, and 2001

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 and in Toronto, Canada. 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 from several providers. These agreements are primarily under 15-25 year IRU's.

Segments

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

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 intra-city dark fiber and multi-tenant office buildings, the availability and performance of the Company's network equipment, the availability of additional capital, the ability to meet the financial and operating covenants under its credit facility, the Company's ability to integrate acquired businesses and purchased assets into its operations and realize planned synergies, the extent to which acquired businesses and assets are able to meet the Company's expectations and projections, the Company's ability to successfully market its products and services, the Company's ability to retain and attract key employees, and the Company's ability to manage its growth, among other factors. Although management believes that the Company will successfully mitigate these risks, management cannot give assurances that it will be able to do so or that the Company will ever operate profitably.

One of the Company's suppliers of metropolitan fiber optic facilities, Metromedia Fiber Networks (MFN), has announced that it may file for bankruptcy in April 2002. This would impact the Company's operations mostly by decreasing our ability to add new metropolitan fiber rings from MFN and the Company's ability to add new buildings to existing MFN rings. However, as the Company has other providers of metropolitan fiber optic facilities the Company does not anticipate a significant impact.

MFN's financial difficulties are characteristic of the telecommunications industry today. Several of the Company's vendors, including Williams, Level 3 and Qwest, have been reported in the financial press to be experiencing financial difficulties. The Company does not expect Williams' difficulties to impact the Company because Williams has completed delivery of the Company's national fiber optic backbone. The Company's solution for metropolitan networks is to have a large number of providers and to develop the ability to construct its own fiber optic connections to the buildings the Company serves.

The Company has obtained $177 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"). In August 2001, the Company entered into an agreement to merge with Allied Riser Communications Corporation ("Allied Riser") which closed on February 4, 2002. In connection with the merger, the Company acquired additional cash and assumed the obligations of Allied Riser including its convertible subordinated notes due in June 2007 totaling $117 million. 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 (subject to continued covenant compliance) and the funds acquired in the Allied Riser merger, will be sufficient to fund the Company's current business plan through fiscal 2002.

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 inter-company 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 and 2001, the Company's marketable securities consisted of money market accounts and commercial paper.

The Company is party to a letter of credit totaling $450,000 as of December 31, 2001. This letter of credit is secured by a certificate of deposit that is restricted and included in short-term investments. No claims have been made against this financial instrument. Management does not expect any losses from the resolution of this financial instrument and is of the opinion that the fair value is zero since performance is not likely to be required.

At December 31, 2000 and 2001, the carrying amount of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and accrued expenses approximated fair value because of the short maturity of these instruments. The interest rate on the Company's credit facility resets on a quarterly basis; accordingly, as of December 31, 2000 and 2001, the fair value of the Company's credit facility approximated the carrying amount.

Credit risk

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

Reclassifications

Certain amounts in the December 31, 2000 financial statements have been reclassified in order to conform to the 2001 financial statement presentation.

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 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.

Depreciation and amortization periods are as follows:

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

Long-lived assets

Long-lived assets, which include property and equipment, 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, 2000 and 2001.

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.

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

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.

Income taxes

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

Stock-based compensation

The Company accounts for its stock option plan 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

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.

For the period from inception to December 31, 1999 and the years ended December 31, 2000 and 2001, options to purchase 46,950, 608,136 and 1,157,920 shares of common stock at weighted-average exercise prices of $0.10, $9.90 and $5.30 per share, respectively, are not included in the computation of diluted earnings per share as they are anti-dilutive. For the period from inception to December 31, 1999 and the years ended December 31, 2000 and 2001, 26,000,000, 45,809,783, and 95,583,185 shares of preferred stock, which were convertible into 2,600,000, 4,580,978, and 10,148,309 shares of common stock, were not included in the computation of diluted earnings per share as a result of their anti-dilutive effect. For the year ended December 31, 2001, warrants for 710,216 shares of common stock, were not included in the computation of diluted earnings per share as a result of their anti-dilutive effect.

Acquisitions

Allied Riser Merger

In August 2001, the Company entered into an agreement to merge with Allied Riser. The merger closed on February 4, 2002. Under the terms of the merger agreement as amended in October 2001, the Company issued approximately 13.4% of its common stock, on a fully diluted basis, to the existing Allied Riser stockholders and became a public company listed on the American Stock Exchange.

NetRail Inc.

On September 6, 2001, the Company paid approximately $12 million for certain assets of NetRail, Inc, ("NetRail") a Tier-1 Internet service provider, in a sale conducted under Chapter 11 of the United States Bankruptcy Code. 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. As a result of the acquisition, the Company expects to reduce its cost of network services through the use of NetRail's settlement-free peering arrangements and increase its revenues by providing services to the acquired NetRail customers.

The acquisition of the assets of NetRail, Inc. was recorded in the accompanying December 31, 2001 financial statements under the purchase method of accounting. The purchase price was primarily allocated to the settlement-free peering agreements acquired from NetRail, Inc., which had an estimated fair value of approximately $11.0 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 non-current assets. The purchase price 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 NetRail acquisition had taken place at the beginning of 2000 and 2001 the unaudited pro forma combined results of the Company for the year ended December 31, 2000 and 2001 would have been as follows (amounts in thousands, except per share amounts).

	Year Ended December 31, 2000	Year Ended December 31, 2001
Revenue	$ 1,230	$ 4,676
Net loss applicable to common stock	(16,405)	(94,043)
Net loss per share basic and diluted	$ (11.87)	$ (66.89)

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 and 2001.

2. Property and equipment:

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

	December 31,	
	2000	2001
Owned assets:		
Network equipment	$ 50,537	$ 126,796
Software	1,971	4,756
Office and other equipment	1,555	2,274
Leasehold improvements	64	16,690
System infrastructure		21,288
Construction in progress	10,009	5,230

		December 31,	
		64,136	177,034
Less	Accumulated depreciation and amortization	(324)	(11,726)
		63,812	165,308
Assets under capital leases:			
IRUs		47,855	72,023
Less	Accumulated depreciation and amortization	(14)	(1,549)
		47,841	70,474
Property and equipment, net		$ 111,653	$ 235,782

Capitalized interest

In 2000 and 2001, the Company capitalized interest of $2,963,000 and $4,408,000, respectively. There was no interest capitalized in 1999.

Indefeasible rights of use agreements (IRUs)

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, $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 IRUs 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. In June 2000, the Company amended its product purchase agreement with Cisco Systems, Inc ("Cisco"). 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 $6.7 million paid in 2001. These payments are recorded as a deferred equipment discount and classified as a reduction of network equipment in the accompanying balance sheets. The deferred equipment discount is being amortized as a reduction to depreciation expense over a seven-year period as the related equipment is placed in service.

3. Accrued Liabilities:

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

	2000	2001
General operating expenditures	$ 648	$ 2,101
Payroll and benefits	282	1,206
Taxes		102
Interest	2,025	53
Total	$ 2,955	$ 3,462

4. Intangible Assets:

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

	2000	2001

Peering arrangements	$	$ 11,036
Customer contracts		704
Total		$ 11,740
Less accumulated amortization		(1,304)
Intangible assets, net	$	$ 10,436

Intangible assets are being amortized over 36 months.

5. Other assets:

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

	2000	2001
Prepaid expenses	$ 945	$ 2,159
Deposits	196	1,655
Deferred financing costs	6,072	15,647
Total	$ 7,213	$ 19,461

6. Long-term debt:

In March 2000, Cogent entered into a $280 million credit facility with Cisco Capital. In March 2001, the credit facility was increased to $310 million. In October 2001, Cogent entered into a new agreement for $409 million (the "Facility"). This credit facility replaced the existing $310 million credit facility between Cisco Capital and Cogent. The October 2001 agreement matures on December 31, 2008 and is available to finance the purchases of Cisco network equipment, software and related services, to fund working capital, and to fund interest and fees related to the Facility. On

January 31, 2002, the Facility was amended to modify certain covenants in connection with the Company's merger with Allied Riser.

The Facility requires compliance with certain financial and operational covenants, among other conditions and restrictions. During 2001, Cogent violated certain debt covenants related to minimum customers and revenues. However, as of December 31, 2001, Cogent is in compliance with the agreement. The Company is subject to similar covenants in the future.

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. 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. The weighted-average interest rate on all borrowings for the years ending December 31, 2000 and 2001 was approximately 11.2% and 8.5%, respectively. 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.

In June 2001, the Company borrowed $29.0 million of working capital loans under the March 2001 credit agreement. Warrants to purchase the Company's common stock were issued in connection with these working capital loans. The warrant exercise price was based upon the most recent significant equity transaction, as defined. This borrowing resulted in granting Cisco Capital warrants for 86,625 shares of the Company's common stock. In connection with the October 2001 agreement, the Company issued Cisco Capital warrants for an additional 623,591 shares of its common stock and incurred a $2.0 million closing fee. The closing fee was paid with the use of the credit facility. All warrants are exercisable for eight years from the grant date at exercise prices ranging from $12.47 to $30.44 per share, with the weighted-average exercise price of $18.10. These warrants have been valued at approximately $8.3 million using the Black-Scholes method of valuation and are recorded as deferred financing costs and stock purchase warrants in the accompanying December 31, 2001 balance sheet using the following assumptions average risk free rates of 4.5 to 5.8 percent, estimated fair values of the Company's common stock of $11.25 to $40.95, expected lives of 8 years and expected volatility of 90%. The deferred financing costs are being amortized to interest expense over the term of the Facility.

Borrowings under the Facility are available in increments subject to Cogent's satisfaction of certain operational and financial covenants over time. Up to $25 million is available for additional equipment loans through June 30, 2002, of which $1.3 million was borrowed as of December 31, 2001. An additional $100 million of equipment loans becomes available on July 1, 2002. Up to $16 million is available to fund interest and fees related to the Facility through June 30, 2002 of which $6.4 million was borrowed as of December 31, 2001. An additional $59 million for funding interest and fees related to the Facility becomes available on July 1, 2002. An additional $35 million in working capital loans becomes available on July 1, 2002. The aggregate balance of working capital loans is limited to 35 percent of outstanding equipment loans. Borrowings under the Facility for the purchase of products and working capital are available until December 31, 2004. Borrowings under the Facility for the funding of interest and fees are available until December 31, 2005.

The Company began entering into equipment loans in August 2000. At December 31, 2001, there were $145.9 million of equipment loans, $29.0 million of working capital loans and $6.4 million of interest and fee loans outstanding. Subsequent to year-end, and through March 1, 2002, the Company borrowed an additional $5.8 million of equipment loans.

Maturities of borrowings under the Facility are as follows (in thousands):

For the year ending December 31		
2002	$	
2003		
2004		
2005		434
2006		60,437
Thereafter		120,441
	$	181,312

7. Income taxes:

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

	December 31	
	2000	**2001**
Net operating loss carry-forwards	$ 3,889	$ 28,827
Depreciation	(191)	(1,102)
Start-up expenditures	760	1,062
Accrued liabilities	344	973
Deferred compensation		1,325
Valuation allowance	(4,802)	(31,085)
Net deferred tax asset	$	$

Due to the uncertainty surrounding the realization of its net deferred tax asset, the Company has recorded a valuation allowance for the full amount of its net deferred tax asset. Should the Company achieve profitability, its deferred tax assets may be available to offset future income tax liabilities. The federal and state net operating loss carry-forwards of $71 million expire in 2019 to 2021. For federal and state tax purposes, the Company's net operating loss carry-forwards could be subject to certain limitations on annual utilization if certain changes in ownership were to occur as defined by federal and state tax laws.

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

	1999	**2000**	**2001**

Federal income tax (benefit) at statutory rates	(34.0)%	(34.0)%	(34.0)%
State income tax (benefit) at statutory rates, net of Federal benefit	(6.6)	(6.6)	(6.6)
Increase in valuation allowance	40.6	40.6	40.6
Effective income tax rate	%	%	%

8. Commitments and contingencies:

Capital leases Fiber lease agreements

The Company has entered into lease agreements with several providers for intra-city and inter city dark fiber primarily under 15-25 year IRU's. These IRU's connect the Company's national backbone fiber with the multi-tenant office buildings and the customers served by the Company. Once the Company has accepted the related fiber route, leases of intra-city and inter-city fiber-optic rings

that meet the criteria for treatment as capital leases are recorded as a capital lease obligation and IRU asset. The future minimum commitments under these agreements are as follows (in thousands):

For the year ending December 31	
2002	$ 2,253
2003	2,253
2004	2,253
2005	2,253
2006	2,253
Thereafter	33,551
Total minimum lease obligations	44,816
Less amounts representing interest	(23,658)
Present value of minimum lease obligations	21,158
Current maturities	(426)
Capital lease obligations, net of current maturities	$ 20,732

Metromedia Fiber Networks ("MFN")

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. 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.

Other Fiber Leases and Construction Commitments

The Company has agreements with several fiber providers for the construction of laterals to connect office buildings to metro fiber rings and for the leasing of these metro fiber rings and the lateral fiber. These leases are generally for a period of 15-20 years and include renewal periods. The future commitment under these arrangements was approximately $60 million at December 31, 2001.

Equipment purchase commitment

In March 2000, the Company entered into a five-year agreement to purchase from Cisco, minimum annual amounts of equipment, professional services, and software. In June 2000, the agreement was amended to increase the Company's previous commitment to purchase $150.1 million over four years to $212.2 million over five years. In October 2001, the commitment was increased to purchase $270 million until December 2004. As of December 31, 2001, the Company has purchased and ordered approximately $153 million towards this commitment.

Litigation

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.

Vendor Claims

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 $18.8 million attorneys' fees, interest, and punitive damages relating to various types of equipment allegedly ordered from Hewlett-Packard Company by Allied Riser Operations Corporation. Management believes that this claim is without merit and Allied Riser has filed its answer generally denying Hewlett-Packard's claims. Management intends to continue to vigorously contest this lawsuit.

On January 16, 2002, Allied Riser received a letter from Hewlett-Packard Company alleging that certain unspecified contracts are in arrears, and demanding payment in the amount of $10.0 million. The letter does not discuss the basis for the claims or whether the funds sought are different from or in addition to the funds sought in the July 26, 2001 lawsuit. Allied Riser, through its legal counsel, has made an inquiry of Hewlett-Packard's counsel to determine the basis for the claims in the letter. Management believes this claim is without merit and intends to vigorously contest this claim.

Note Holders Claims

On December 12, 2001, Allied Riser announced that certain holders of its 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 in Delaware Chancery Court 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. The plaintiffs amended their complaint on January 11, 2002 and subsequently served it on Allied Riser. On January 28, 2002 the Court held a hearing on a motion by the plaintiffs to preliminarily enjoin the merger. On January 31, 2002 the Court issued a Memorandum Opinion denying that motion. Management believes that these claims are without merit, and intends to continue to vigorously contest this lawsuit.

Securities and Exchange Commission Request

On February 21, 2002, the Division of Enforcement of the US Securities and Exchange Commission requested that the Company voluntarily provide it certain documents related to the fairness opinion delivered to the Allied Riser board of directors by Allied Riser financial advisor, Houlihan Lokey Howard & Zukin on August 28, 2001, and the Company's Series C preferred stock financing. The Company is complying with the request. The SEC has not informed the Company as to the reason for its request.

Operating leases and license agreements

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

Year ending December 31	
2002	$ 7,090
2003	7,549
2004	7,723
2005	7,600
2006	6,831
Thereafter	40,858
	$ 77,651

Rent expense was $723,000 in 2000 and $3,325,000 in 2001. There was no rent expense in 1999.

Connectivity, maintenance and transit agreements

In order to provide its service, the Company has commitments with service providers to connect to the Internet. 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. In certain cases, the Company connects its customers and the buildings it serves to its national fiber-optic backbone using intra-city and inter-city fiber under operating lease commitments from various providers. These contracts range from month-to-month charges to 36-month terms.

Future minimum obligations as of December 31, 2001, related to these arrangements are as follows (in thousands):

Year ending December 31	
2002	$ 5,585
2003	5,127
2004	3,600
2005	3,648
2006	3,721
Thereafter	60,636
	$ 82,317

9. Stockholders' equity:

The Company has authorized 21,100,000 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"). The number of authorized shares of common stock was increased from 7,000,000 to 21,100,000 in October 2001 in connection with the Series C financing.

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 ten shares 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 ten shares 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 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 Series A and Series B preferred shares are considered redeemed and are canceled.

In October 2001, the Company issued 49,773,402 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, as defined, holders of Series C preferred stock are entitled to receive certain preferences to holders of common stock. In the event of 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 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 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, as declared, cash dividends at a rate of 8% of the original Series C preferred stock purchase price per annum. Any partial payment will be made ratably among the holders of Series C preferred stock. Except for acquisitions of common stock 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 the Company's right of first refusal to repurchase such shares, the Company may not declare any dividends or make any other distribution on any other stock, called junior stock (Series A, Series B and common stock), until all dividends on the Series C preferred stock have been paid. If dividends are paid on any junior stock, the Company shall pay an additional dividend on all outstanding shares of Series C preferred stock in an amount per share equal (on an as-if-converted to common stock basis) to the amount paid or set aside for each share of junior stock.

Series C 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 ten shares 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 shareholders holding outstanding shares of preferred stock or immediately upon the closing of a firmly underwritten public offering in which the aggregate pre-money valuation is at least $500,000,000 and in which the gross cash proceeds are at least $50,000,000.

In the event of a stock split or reverse stock split, the applicable conversion prices will be proportionately decreased or increased. If the Company 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 the Company 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, re-capitalization, or capital reorganization.

If the Company issues or sells additional shares of common stock for a price which is less than the then-applicable Series A conversion price in the case of Series A preferred stock, the applicable Series B conversion price in the case of Series B preferred stock, or the applicable Series C conversion price in the case of Series C preferred stock, then the conversion prices shall be reduced to prices calculated as prescribed by the Company's certificate of incorporation.

Beneficial Conversion

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 ten shares of Series B preferred to 1.2979 shares of common stock per ten shares of Series B preferred. This equates to an additional 590,198 shares of common stock. This transaction resulted in a non-cash beneficial conversion charge of approximately $24.2 million that was recorded in the Company's fourth quarter 2001 financial statements as a reduction to retained earnings and earnings available to common shareholders and an increase to additional paid-in capital.

10. Stock option plan:

In 1999, the Company adopted its Equity Incentive Plan (the "Plan") for granting of options to employees, directors, and consultants under which 1,490,000 shares are reserved for issuance. Options granted under the Plan may be designated as incentive or nonqualified at the discretion of the Plan administrator. Stock options granted under the Plan generally vest over a four-year period and have a

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term of ten years. Stock options exercised, granted, and canceled during the period from inception (August 9, 1999) to December 31, 2001, were as follows:

	Number of options	Weighted-average exercise price
Outstanding at inception (August 9, 1999)		$
Granted	46,950	$ 0.10
Exercised		$
Cancellations		$
Outstanding at December 31, 1999	46,950	$ 0.10
Granted	634,503	$ 10.03
Exercised	(40,698)	$ 2.22
Cancellations	(32,619)	$ 7.78
Outstanding at December 31, 2000	608,136	$ 9.90
Granted	822,072	$ 4.04
Exercised	(9,116)	$ 2.25
Cancellations	(263,172)	$ 12.10
Outstanding at December 31, 2001	1,157,920	$ 5.30

Options exercisable as of December 31, 1999, were 23,475 with a weighted-average exercise price of $0.10. 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 36,946 with a weighted-average exercise price of $7.50. The weighted-average remaining contractual life of the outstanding options at December 31, 2000, was approximately 9.5 years. Options exercisable as of December 31**,** 2001, were 223,523 with a weighted- average exercise price of $7.24**.** The weighted-average remaining contractual life of the outstanding options at December 31, 2001, was approximately 9.4 years.

OUTSTANDING AND EXERCISABLE BY PRICE RANGE
As of December 31, 2001

Range of Exercise Prices	Number Outstanding 12/31/2001	Weighted Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable As of 12/31/2001	Weighted-Average Exercise Price
$0.10	9,425	7.65	$ 0.10	6,468	$ 0.10
$2.00	691,670	9.92	$ 2.00	60,163	$ 2.00
$2.50	95,292	8.23	$ 2.50	40,089	$ 2.50
$10.00	180,830	8.50	$ 10.00	70,569	$ 10.00
$15.00	180,703	8.98	$ 15.00	45,964	$ 15.00
$0.10 $15.00	1,157,920	9.39	$ 5.30		