COGENT COMMUNICATIONS GROUP INC
Form 424B5
June 02, 2006

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PROSPECTUS SUPPLEMENT
(To Prospectus dated May 5, 2006)

Filed pursuant to Rule 424(b)(5)
Registration No. 333-133200

9,000,000 Shares

Common Stock

We are offering 4,000,000 shares of our common stock to the public. Certain of our stockholders identified in this prospectus supplement are offering 5,000,000 shares of our common stock to the public.

We will not receive any proceeds from the sale of the shares by the selling stockholders. We will pay certain expenses of the selling stockholders.

Our common stock is traded on the Nasdaq National Market under the symbol "CCOI." The last reported sale price of our common stock on June 1, 2006 was $9.30 per share.

Investing in our common stock involves risks. See "Risk Factors" beginning on page S-6.

	Per Share	Total
Public offering price	$ 9.0000	$ 81,000,000
Underwriting discounts	0.4725	4,252,500
Proceeds to us (before expenses)	8.5275	34,110,000
Proceeds to selling stockholders (before expenses)	8.5275	42,637,500

We and certain of our stockholders, including our Chairman and Chief Executive Officer Dave Schaeffer, have granted the underwriters a 30-day option to purchase up to an additional 1,350,000 shares on the same terms and conditions as set forth above if the underwriters sell more than 9,000,000 of firm shares of common stock in this offering.

Neither the Securities and Exchange Commission nor any state or foreign securities commission or regulatory authority has approved or disapproved of these securities, or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

Lehman Brothers, on behalf of the underwriters, expects to deliver the shares on or about June 7, 2006.

Joint Book-Running Managers

LEHMAN BROTHERS **BEAR, STEARNS & CO. INC.**

Joint Lead Manager

THOMAS WEISEL PARTNERS LLC

WACHOVIA SECURITIES **FRIEDMAN BILLINGS RAMSEY**

June 1, 2006

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Prospectus Supplement

Prospectus

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement contains the terms of this offering.

This prospectus supplement is part of and should be read in conjunction with the accompanying prospectus. This prospectus supplement is not complete without, and may not be delivered or utilized except in connection with the accompanying prospectus. The information we present in this prospectus supplement may add, update or change information included in the accompanying prospectus. If information in this prospectus supplement, or the information incorporated by reference in the accompanying prospectus, is inconsistent with the accompanying prospectus, this prospectus supplement, or the information incorporated by reference in the accompanying prospectus, will apply and will supersede that information in the accompanying prospectus.

Unless the context otherwise requires or as otherwise expressly stated, references in this prospectus supplement to "Cogent," "we," "us" and "our" and similar terms refer to Cogent Communications Group, Inc. and its direct and indirect subsidiaries on a consolidated basis.

You should rely only on the information contained or incorporated by reference in this prospectus supplement. We have not authorized anyone to provide you with different information. You should not assume that the information contained or incorporated by reference in this prospectus supplement is accurate as of any date other than the date of this prospectus supplement. We are not making an offer of these securities in any state where the offer is not permitted.

PROSPECTUS SUPPLEMENT SUMMARY

The following summary highlights certain significant aspects of our business and this offering, but you should carefully read this entire prospectus supplement and the accompanying prospectus, including the financial data and related notes and the documents incorporated by reference, which are described under "Incorporation by Reference," before making an investment decision. Because this is a summary, it may not contain all the information that is important to you. Our actual results could differ materially from those anticipated in certain forward-looking statements contained in this prospectus supplement as a result of certain factors, including those set forth under "Risk Factors."

Overview

We are a leading facilities-based provider of low-cost, high-speed Internet access and Internet Protocol ("IP") communications services. Our network is specifically designed and optimized to transmit data using IP. IP networks are significantly less expensive to operate and are able to achieve higher performance levels than the traditional circuit-switched networks used by many of our competitors, thus giving us clear cost and performance advantages in our industry. According to third party data, we are among the top ten facilities-based Internet service providers in the world. We deliver our services to small and medium-sized businesses, communications service providers and other bandwidth-intensive organizations through over 10,000 customer connections in North America and Europe.

Our network is comprised of in-building riser facilities, metropolitan optical fiber networks, metropolitan traffic aggregation points and inter-city transport facilities. Our network serves 95 metropolitan markets in North America and Europe and encompasses:

- approximately 820 multi-tenant office buildings strategically located in commercial business districts, which we believe represents, as of December 31, 2005, approximately 7.2% of the total rentable office space (on a square footage basis) in 44 key business markets in the U.S. and in Toronto;

- over 220 carrier-neutral Internet aggregation facilities, data centers and single-tenant buildings;

- over 195 intra-city networks consisting of over 9,300 fiber miles;

- an inter-city network of more than 22,800 fiber route miles; and

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

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

Our primary on-net service is Internet access at a speed of 100 Megabits per second, much faster than typical Internet access currently offered to businesses. We offer this on-net service exclusively through our own facilities, which run all the way to our customers' premises. Because of our integrated network architecture, we are not dependent on local telephone companies to serve our on-net customers. This allows us to earn much higher gross profit margins on our on-net business. Our typical customers in multi-tenant office buildings are law firms, financial services firms, advertising and marketing firms and other professional services businesses. We also provide on-net Internet access at a speed of one Gigabit per second and greater to certain bandwidth-intensive users such as universities, other ISPs and commercial content providers. For the year ended December 31, 2005 and the three months ended March 31, 2006, our on-net customers generated 57.9% and 65.9%, respectively, of our total net service revenue.

In addition to providing our on-net services, we also provide Internet connectivity to customers that are not located in buildings directly connected to our network. We serve these off-net customers using other carriers' facilities to provide the "last mile" portion of the link from our customers' premises to our network. Customers of our off-net services are primarily small and medium-sized businesses. During the year ended December 31, 2005 and the three months ended March 31, 2006, our off-net customers generated 33.0% and 26.5%, respectively, of our total net service revenue.

We also operate 28 data centers comprising approximately 290,000 square feet throughout North America and Europe that allow customers to colocate their equipment and access our network.

Our net service revenue has grown from $3.0 million for the year ended December 31, 2001 to $135.2 million for the year ended December 31, 2005, and was $34.4 million for both the three month periods ended March 31, 2005 and March 31, 2006. We have grown our gross profit from negative $17.0 million for the year ended December 31, 2001 to $49.4 million for the year ended December 31, 2005, and from $11.5 million for the three months ended March 31, 2005 to $14.1 million for the same period in 2006. Our gross profit margin has expanded from 30.5% for the year ended December 31, 2004 to 36.5% for the same period in 2005 and from 33.3% for the three months ended March 31, 2005 to 41.0% for the same period in 2006. We determine gross profit by subtracting cost of network operations (exclusive of equity-based compensation expense) from our net service revenue. However, since we initiated operations in 2000, we have generated increasing operating losses, had negative cash flows and as of March 31, 2006 had an accumulated deficit of $227.6 million. No single customer accounts for more than 2% of our net service revenues.

Competitive Advantages

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

Low Cost of Operation. Our network operating expenses are significantly lower than most of our competitors whose networks are not designed specifically to carry IP traffic. Our low cost of operation gives us greater pricing flexibility and an advantage in a competitive environment characterized by falling Internet access prices.

Independent Network. Our on-net service does not rely on infrastructure controlled by local incumbent telephone companies. This gives us more control over our service, quality and pricing and allows us to provision services more quickly and efficiently.

High Quality, Reliable Service. Our network is designed with dedicated intra-city bandwith for each customer. This design increases the speed and throughput of our network and reduces the number of data packets dropped during transmission. During 2005, our network averaged 99.97% customer connection availability.

Low Capital Cost to Grow Our Business. We have incurred relatively minimal indebtedness in growing our business because of our network design of using Internet routers without additional legacy equipment and our strategy of acquiring optical fiber from the excess capacity in existing networks. Our network was designed to handle traffic transmitted at the full capacity of ports connecting it to customers. The ports are currently handling traffic at approximately 7% of their aggregate capacity. We believe that our network can accommodate substantial traffic growth without having to incur substantial capital expenditures.

Experienced Management Team. The members of our senior management team have an average of 20 years of experience in the telecommunications industry. They have designed and built our network, led the integration of our 13 acquisitions and guided us through the telecommunications industry downturn.

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

Our Strategy

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

Focus on Providing Low-Cost, High-Speed Internet Access and IP Connectivity. We intend to further load our high-capacity network to respond to the growing demand for high-speed Internet service generated by bandwith-intensive applications, such as streaming media, online gaming, IP telephony, remote data storage, distributed computing and virtual private networks.

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

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

Industry Data

Information contained in this prospectus about our position in our industry is based on market studies published by several independent third parties. These studies indicate that we are ranked among the top ten Internet service providers in the world based on network capacity, IP address control and peering arrangements, ranked sixth in U.S. colocation facility connections and ranked fifth worldwide in autonomous system connections. In calculating total office building square footage in the United States and Canada, we have relied on third party data assessing the Toronto, Canada office market and 44 key office markets in the United States. While we believe that this data is reliable, we have not independently verified the industry data provided by these third party sources or that it is exactly comparable to our square footage computations.

Company Information

We were incorporated in Delaware in August 1999. In February 2002, in connection with our merger with Allied Riser Communications Corporation, shares of our common stock started public trading on the American Stock Exchange and we became subject to, and commenced reporting under, the Securities Exchange Act of 1934. In March 2006, our shares began trading on the Nasdaq National Market. Our principal executive offices are located at 1015 31st Street N.W., Washington, D.C. 20007. Our telephone number is (202) 295-4200 and our web site address is www.cogentco.com. The information contained, referenced or incorporated in our web site is not a part of this prospectus supplement.

The Offering

Common stock offered by us	4,000,000 shares
Common stock offered by selling stockholders	5,000,000 shares
Common stock to be outstanding after this offering	48,128,879 shares
Use of Proceeds	We intend to use the proceeds that we receive from this offering to fund the expansion of our sales and marketing efforts, to connect additional buildings to our network and for general corporate purposes, which may include potential acquisitions. We will receive no proceeds from the sale of shares by the selling stockholders. See "Use of Proceeds."
Nasdaq symbol	"CCOI"

The number of shares of our common stock that will be outstanding after this offering is based on our shares outstanding as of March 31, 2006 and includes:

- 44,128,879 shares of our common stock outstanding; and
- 4,000,000 shares of our common stock to be issued in this offering.

The number of shares of our common stock that will be outstanding after this offering excludes:

- 5,189 shares of our common stock issuable upon exercise of outstanding common stock warrants;
- 1,066 shares of our common stock issuable upon conversion of our $7^1/_2$% Convertible Subordinated Notes Due 2007;
- 1,224,808 shares of our common stock issuable upon the exercise of outstanding stock options issued by us under our stock-based employee compensation plans; and
- 537,058 additional shares of our common stock reserved for future grants under our stock-based employee compensation plans.

Unless we specifically state otherwise, all information in this prospectus supplement assumes the underwriters do not exercise their option to purchase up to 1,350,000 additional shares from us and certain of our stockholders, including our Chairman and Chief Executive Officer.

Risk Factors

You should carefully read and consider the information set forth in "Risk Factors" and all other information set forth in this prospectus supplement before investing in our common stock.

Summary Consolidated Financial and Other Data

The following summary historical financial information should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this prospectus supplement. The "As Adjusted" column in the Balance Sheet Data gives effect to this offering as if it had occurred on March 31, 2006 and based on the estimated net proceeds as described under "Use of Proceeds."

	Year Ended December 31,				Three Months Ended March 31,	
	2002	2003	2004	2005	2005	2006
					(Unaudited)	
	(in thousands, except operating data)					
Statement of Operations Data:						
Net service revenue	$ 51,913	$ 59,422	$ 91,286	$ 135,213	$ 34,414	$ 34,447
Operating expenses:						
Network operations (exclusive of equity-based compensation expense)	49,091	47,017	63,466	85,794	22,937	20,337
Equity-based compensation expense cost of network operations	233	1,307	858	399	96	105
Selling, general, and administrative (exclusive of equity-based compensation expense)	33,495	26,570	40,382	41,344	10,296	10,785
Equity-based compensation expense selling, general, and administrative	3,098	17,368	11,404	12,906	3,099	3,394
Terminated public offering costs			779			
Restructuring charges			1,821	1,319		
Gain on settlement of vendor litigation	(5,721)					
Depreciation and amortization	33,990	48,387	56,645	55,600	13,680	14,144
Total operating expenses	114,186	140,649	175,355	197,362	50,108	48,765
Operating loss	(62,273)	(81,227)	(84,069)	(62,149)	(15,694)	(14,318)
Gains on debt and lease obligation restructurings		240,234	5,292	5,058	3,372	
Settlement of noteholder litigation	(3,468)					
Interest income (expense) and other, net	(34,545)	(18,264)	(10,883)	(10,427)	(2,651)	(2,123)
(Loss) income before extraordinary item	(100,286)	140,743	(89,660)	(67,518)	(14,973)	(16,441)
Extraordinary gain Allied Riser merger	8,443					
Net (loss) income	(91,843)	140,743	(89,660)	(67,518)	(14,973)	(16,441)
Beneficial conversion of preferred stock		(52,000)	(43,986)			
Net (loss) income applicable to common stock	$ (91,843)	$ 88,743	$ (133,646)	$ (67,518)	$ (14,973)	$ (16,441)
Other Financial Data:						
Capital expenditures	$ 75,214	$ 24,016	$ 10,135	$ 17,342	$ 3,092	$ 4,662
Net cash used in operating activities	(41,567)	(27,357)	(26,425)	(9,062)	(6,622)	(1,591)
Net cash used in investing activities	(19,786)	(25,316)	(2,701)	(14,055)	(2,811)	(3,916)
Net cash provided by (used in) financing activities	51,694	20,562	34,486	39,824	13,211	(3,738)

	As of and for the Year Ended December 31,				As of and for the Three Months Ended March 31,	
	2002	2003	2004	2005	2005	2006
Operating Data:						
Percent of revenue on-net	31.9%	55.5%	63.4%	57.9%	52.9%	65.9%

	As of and for the Year Ended December 31,				As of and for the Three Months Ended March 31,	
Percent of revenue off-net	40.7%	26.4%	24.4%	33.0%	37.0%	26.5%
Percent of revenue non-core	27.4%	18.1%	12.2%	9.1%	10.1%	7.6%
On-net customer connections	881	1,649	2,838	4,657	3,245	5,267
On-net buildings	511	813	989	1,040	1,000	1,053

	March 31, 2006	
	Actual	As Adjusted
	(in thousands)	
Balance Sheet Data:		
Cash and cash equivalents and short-term investments restricted	$ 21,241	$ 54,651
Working capital	11,055	44,465
Property and equipment, net	284,474	284,474
Total assets	333,118	366,528
Capital lease obligations	89,352	89,352
Long term notes payable (net of discount of $2,983)	7,208	7,208
Stockholders' equity	208,161	241,571

RISK FACTORS

Investing in our common stock involves risk. You should carefully consider the specific risks set forth below and under the caption "Risk Factors" in any of our filings with the Commission pursuant to Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934, as amended, incorporated by reference herein, before making an investment decision. For more information see "Where You Can Find More Information."

Risks Related to Our Business

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

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

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

In order to become profitable and cash flow positive, we need to both retain existing customers and continue to add a large number of new customers. The precise number of additional customers required to become profitable and cash flow positive is dependent on a number of factors, including the turnover of existing customers and the revenue mix among customers. We may not succeed in adding customers if our sales and marketing plan is unsuccessful. In addition, many of our target customers are existing businesses that are already purchasing Internet access services from one or more providers, often under a contractual commitment, and it has been our experience that such target customers are often reluctant to switch providers due to costs associated with switching providers.

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

Since we initiated operations in 2000, we have generated operating losses and these losses may continue for the foreseeable future. In 2003, we had an operating loss of $81.2 million, in 2004 we had an operating loss of $84.1 million and in 2005 we had an operating loss of $62.1 million. We had an operating loss of $15.7 million for the three months ended March 31, 2005 compared to $14.3 million for the same period in 2006. As of March 31, 2006, we had an accumulated deficit of $227.6 million. Continued losses may prevent us from pursuing our strategies for growth or may require us to seek unplanned additional capital and could cause us to be unable to meet our debt service obligations, capital expenditure requirements or working capital needs.

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

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

- expand, develop and retain an effective sales force and qualified personnel;
- maintain the quality of our operations and our service offerings;
- maintain and enhance our system of internal controls to ensure timely and accurate compliance with our regulatory reporting requirements; and
- expand our accounting and operational information systems in order to support our growth.

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

We may experience difficulties in implementing our business plan in Europe and may incur related unexpected costs.

During the first quarter of 2004, we completed our acquisitions of Firstmark, the parent holding company of LambdaNet Communications France SAS, or LambdaNet France, and LambdaNet Communications Espana SA, or LambdaNet Spain, and have obtained the rights to certain dark fiber and other network assets that were once part of Carrier 1 International S.A. in Germany. Prior to these transactions, we had only minimal European operations. If we are not successful in developing our market presence in Europe, our operating results could be adversely affected.

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

Currently, we plan to increase our carrier-neutral facilities and other on-net buildings from 1,053 at March 31, 2006 to approximately 1,100 at December 31, 2006. We may be unsuccessful at identifying appropriate buildings or negotiating favorable terms for acquiring access to such buildings, and consequently, may experience difficulty in adding customers to our network and fully using the network's capacity.

We may not successfully make or integrate acquisitions or enter into strategic alliances.

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

- delays in realizing or a failure to realize the benefits we anticipate;
- difficulties or higher-than-anticipated costs associated with integrating any acquired companies, products or services into our existing business;
- attrition of key personnel from acquired businesses;
- unexpected costs or charges; or
- unforeseen operating difficulties that require significant financial and managerial resources that would otherwise be available for the ongoing development or expansion of our existing operations.

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

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

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

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

Our future performance depends upon the continued contribution of our executive management team and other key employees, in particular, our Chairman and Chief Executive Officer, Dave Schaeffer. As founder of our company, Mr. Schaeffer's knowledge of our business combined with his engineering background and industry experience makes him particularly well suited to lead our company.

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

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

By entering into what are known as settlement-free peering arrangements, providers agree to exchange traffic between their respective networks without charging each other. Our ability to avoid the higher costs of acquiring dedicated network capacity and to maintain high network performance is dependent upon our ability to establish and maintain peering relationships. The terms and conditions of our peering relationships may also be subject to adverse changes, which we may not be able to control. For example, several network operators with large numbers of individual users are arguing that they should be able to charge or charge more to network operators and businesses that send traffic to those users. If we are not able to maintain or increase our peering relationships in all of our markets on favorable terms, we may not be able to provide our customers with high performance or affordable services, which could have a material adverse effect on our business. We have in the past encountered some disputes with certain of our providers regarding our peering arrangements, but we have generally been able to route our traffic through alternative peering arrangements, resolve such disputes, or terminate such peering arrangements with a minimal adverse impact on our business. In 2005, we had two such disputes that resulted in a temporary disruption of the exchange of traffic between our network and the network of the other carrier. We cannot assure you that we will be able to continue to establish and maintain relationships with providers or favorably resolve disputes with providers.

We make some of these connections pursuant to agreements that make data transmission capacity available to us at negotiated rates. In some instances these agreements have minimum and maximum volume commitments. If we fail to meet the minimum, or exceed the maximum, volume commitments, our rates and costs may rise.

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

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

- fluctuations in currency exchange rates;
- exposure to additional regulatory requirements, including import restrictions and controls, exchange controls, tariffs and other trade barriers;
- difficulties in staffing and managing our foreign operations;
- changes in political and economic conditions; and
- exposure to additional and potentially adverse tax regimes.

As we continue to expand our European and Canadian business, our success will depend, in part, on our ability to anticipate and effectively manage these and other risks. Our failure to manage these risks and grow our European and Canadian operations may have a material adverse effect on our business and results of operations.

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

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

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

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

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

We rely on complex information systems to operate our network and support our other business functions. Our ability to track sales leads, close sales opportunities, provision services and bill our customers for those services depends upon the effective integration of our various information systems. If our systems, individually or collectively, fail or do not perform as expected, our ability to process and provision orders, to make timely payments to vendors and to ensure that we collect revenue owed to us would be adversely affected. Such failures or delays could result in increased capital expenditures, customer and vendor dissatisfaction, loss of business or the inability to add new customers or additional services, all of which would adversely affect our business and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial information, results of operations and other projections that we may issue from time to time are based upon our assumptions and estimates. While we believe these assumptions and estimates to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. You should understand that certain unpredictable factors could cause our actual results to differ from our announced projections, which occurred on one occasion during 2005, and those differences may be material. No independent expert participates in the preparation of these estimates. These estimates should not be regarded as a representation by us as to our results of operations during such periods as there can be no assurance that any of these estimates will be realized. In light of the foregoing, we caution you not to place undue reliance on these estimates. These estimates constitute forward-looking statements.

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

Our network uses a collection of communications equipment, software, operating protocols and proprietary applications for the high-speed transportation of large quantities of data among multiple locations. Given the complexity of our network, it is possible that data will be lost or distorted. Delays in data delivery may cause significant losses to one or more customers using our network. Our network may also contain undetected design faults and software bugs that, despite our testing, may not be discovered in time to prevent harm to our network or to the data transmitted over it. The failure of any equipment or facility on the network could result in the interruption of customer service until we effect necessary repairs or install replacement equipment. Network failures, delays and errors could also result from natural disasters, power losses, security breaches, computer viruses, denial of service attacks and other natural or man-made events. Our off-net services are dependent on the network of other providers or on local telephone companies. Network failures, faults or errors could cause delays or service interruptions, expose us to customer liability or require expensive modifications that could have a material adverse effect on our business.

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

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

Legislation and government regulation could adversely affect us.

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

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

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

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

Risks Related to Our Common Stock and this Offering

You will incur immediate and substantial dilution.

The public offering price of our common stock will be substantially higher than the net tangible book value per share of our outstanding common stock. Accordingly, if you purchase common stock in this offering, you will suffer immediate and substantial dilution of your investment. Based upon the issuance and sale of 4,000,000 million shares of common stock by us, you will incur immediate dilution of approximately $4.03 in the net tangible book value per share.

After the offering, our affiliates will continue to hold a sufficient number of shares of our common stock to significantly influence all matters requiring a stockholder vote and, as a result, could prevent or delay any strategic transaction.

After the offering, our executive officers, certain entities affiliated with members of our board of directors, our existing greater-than-five-percent stockholders and their affiliates will in the aggregate beneficially own approximately 42.6% of our common stock. The concentration of our stock ownership could have the effect of preventing or delaying a change of control, which in turn could negatively impact the market price of our common stock and prevent our stockholders from realizing a takeover premium over the market price for their shares of common stock.

Future sales of shares of our common stock by existing stockholders in the public market, or the possibility or perception of such future sales, could adversely affect the market price of our stock.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market after this offering or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for you to sell your shares of common stock at a time and at a price which you deem appropriate.

As of March 31, 2006, there were 44,128,879 shares of our common stock outstanding. The 9,000,000 shares of common stock sold in this offering (10,350,000 shares if the underwriters fully exercise their option to purchase additional shares) will be freely tradeable without restriction or further registration under the Securities Act of 1933, as amended, by persons other than our affiliates within the meaning of Rule 144 under the Securities Act.

Following this offering, certain of our executive officers, directors and certain of our stockholders, will own approximately 20.5 million shares of our common stock. Each of these persons will be able to sell shares in the public market from time to time, subject to certain limitations on the timing, amount and method of those sales imposed by SEC regulations. Certain of these persons and the underwriters have agreed to a "lock-up" period, meaning that they may not sell any of their shares after the offering without the prior consent of Lehman Brothers Inc. and Bear, Stearns & Co. Inc., which is described under "Shares Eligible for Future Sale." These holders also have the right to cause us to register the sale of shares of common stock that they own and to include such shares in future registration statements relating to our securities. If these affiliates were to sell a large number of their shares, the market price of our stock could decline significantly. In addition, the perception in the public markets that sales by these affiliates might occur could also adversely affect the market price of our common stock.

Although there is no present intention or arrangement to do so, all or any portion of the shares may be released from the restrictions in the lock-up agreements and those shares would then be available for resale in the market. Any release would be considered on a case-by-case basis.

Because we do not intend to pay dividends, stockholders will benefit from an investment in our common stock only if it appreciates in value.

We currently intend to retain our future earnings, if any, to finance the further expansion and continued growth of our business and do not expect to pay any cash dividends in the foreseeable future. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

We may apply the net proceeds of this offering to uses that do not improve our operating results or increase the value of your investment.

Our board and management will have considerable discretion in the application of the net proceeds of this offering, and you will not have the opportunity, as part of your investment decision, to assess how the proceeds will be used. The net proceeds may be used for corporate purposes that do not improve our operating results or market value, and you will not have the opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use the proceeds.

Our reported financial results may be adversely affected by changes in U.S. GAAP.

We prepare our financial statements in conformity with U.S. GAAP which is subject to interpretation by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results and could affect the reporting of transactions completed before the announcement of a change.

If equity research analysts do not publish research or reports about our business or if they issue unfavorable commentary or downgrade our common stock, the price of our common stock could decline.

The trading market for our common stock will rely in part on the research and reports that equity research analysts publish about us and our business. We do not control these analysts. The price of our stock could decline if one or more equity analysts downgrade our stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act relating to our operations that are based on current estimates, expectations and projections. Words such as "believes," "expects," "potential," "continues," "may," "will," "should," "seeks," "approximately," "predicts," "intends," "plans," "estimates," and "anticipates" are used to identify many of these forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict and assumptions that may not prove to be accurate. Actual outcomes and results may differ materially from what is expressed or forecast in these forward-looking statements. The reasons for this include changes in general economic conditions or the factors described under "Risk Factors."

USE OF PROCEEDS

We will receive net proceeds from this offering of approximately $33.4 million, after deducting underwriting discounts and estimated expenses (or approximately $36.4 million if the underwriters exercise in full their option to purchase additional shares). We intend to use the net proceeds to fund the expansion of our sales and marketing efforts, to connect additional buildings to our network and for general corporate purposes, which may include potential acquisitions of complementary businesses. We will receive no proceeds from the sale of shares by the selling stockholders.

COMMON STOCK PRICE RANGE

Our common stock is currently traded on the Nasdaq National Market under the symbol "CCOI." Prior to February 5, 2002, no established public trading market for our common stock existed.

The table below shows, for the quarters indicated, the reported high and low trading prices of our common stock on the American Stock Exchange and Nasdaq National Market. The trading prices presented below have been adjusted to give effect to our 1-for-20 reverse stock split that was effectuated in February, 2005.

	Year Ended December 31,							
	2003		2004		2005		2006(1)	
	High	Low	High	Low	High	Low	High	Low
First Quarter	$ 18.80	$ 8.00	$ 54.80	$ 22.00	$ 25.40	$ 8.11	$ 9.77	$ 5.13
Second Quarter	64.60	6.80	43.80	5.40	28.30	6.29	12.41	8.70
Third Quarter	47.80	16.00	8.00	4.60	8.37	4.56		
Fourth Quarter	39.60	19.00	40.00	5.60	6.16	4.18		

(1) Represents high and low through June 1, 2006.

The last reported sale price of our common stock on the Nasdaq National Market on June 1, 2006 was $9.30 per share.

DIVIDEND POLICY

We have not paid any dividends on our common stock since our inception and do not anticipate paying any dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will be dependent upon then-existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors our board of directors deems relevant.

CAPITALIZATION

The following table sets forth our cash, cash equivalents and short-term investments and our consolidated capitalization as of March 31, 2006:

- on an actual basis; and

- on an as adjusted basis, to give effect to the receipt of the net proceeds of this offering as described in "Use of Proceeds" as if it had occurred on March 31, 2006.

You should read this table in conjunction with our consolidated financial statements, the related notes and the discussion under "Use of Proceeds" included elsewhere in this prospectus supplement.

	As of March 31, 2006	
	Actual	**As Adjusted**
	(unaudited) (in thousands)	
Cash, cash equivalents and short-term investments $630 restricted	$ 21,241	$ 54,651
Debt (including current maturities):		
Capital lease obligations	89,352	89,352
Convertible Subordinated Notes (net of discount of $2,983)	7,208	7,208
Total debt	96,560	96,560
Stockholders' equity:		
Common stock, par value $0.001 per share; 75,000,000 shares authorized; 44,128,879 shares outstanding; 48,128,879 outstanding as adjusted	44	48
Additional paid-in capital	434,318	467,724
Stock purchase warrants	764	764
Accumulated other comprehensive income	768	768
Treasury stock, 61,462 shares	(90)	(90)
Accumulated deficit	(227,643)	(227,643)
Total stockholders' equity	208,161	241,571
Total capitalization	$ 304,721	$ 338,131

The tables and calculations above exclude:

- options to acquire 1,224,808 shares of common stock at a weighted-average exercise price of $2.73 per share;

- 537,058 shares of our common stock available for issuance as restricted stock grants or as stock options;

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

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

DILUTION

Dilution is the amount by which the offering price paid by the purchasers of the common stock to be sold in this offering exceeds the net tangible book value per share of common stock after this offering. The net tangible book value per share is determined at any date by subtracting our total liabilities from the total book value of our tangible assets (total assets less intangible assets) and dividing the difference by the number of shares of our common stock outstanding at that date.

Our net tangible book value as of March 31, 2006 was $206.0 million, or $4.67 per share. After giving effect to the receipt of approximately $33.4 million of estimated net proceeds from our sale of 4,000,000 million shares of common stock in this offering, our as adjusted net tangible book value as of March 31, 2006 would have been approximately $239.4 million, or $4.97 per share. This represents an immediate increase in net tangible book value of $0.30 per share to existing shareholders and an immediate dilution of $4.03 per share to new investors purchasing shares of our common stock in this offering. The following table illustrates this substantial and immediate per share dilution to new investors:

Offering price per share		$ 9.00
Net tangible book value before the offering	$ 4.67	
Increase per share attributable to investors in the offering	0.30	
As adjusted net tangible book value after the offering		4.97
Dilution per share to new investors		$ 4.03

The following table summarizes as of March 31, 2006:

- the total number of shares of common stock purchased from us;
- the total consideration paid to us; and
- the average price per share paid by our stockholders prior to this offering and by those purchasing shares in this offering.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
	(in thousands, except per share amounts)				
Pre-offering stockholders	44,128,879	91.7%	$ 364,296	91.0%	$ 8.26
Investors in the offering	4,000,000	8.3%	36,000	9.0%	9.00
Total	48,128,879	100.0%	400,296	100.0%	8.32

The tables and calculations above exclude:

- options to acquire 1,224,808 shares of common stock at a weighted-average exercise price of $2.73 per share;
- 537,058 shares of our common stock available for issuance as restricted stock grants or as stock options;
- 5,189 shares of common stock issuable upon exercise of outstanding common stock warrants; and

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

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table sets forth our selected historical consolidated financial data for the periods indicated. We derived our consolidated statement of operations data presented below for the years ended December 31, 2002, 2003, 2004 and 2005, and our balance sheet data as of December 31, 2002, 2003, 2004 and 2005 from our consolidated financial statements. We derived our consolidated statement of operations data presented below for the year ended December 31, 2001 and our balance sheet data as of December 31, 2001 from our consolidated financial statements, which were audited by Arthur Andersen LLP, our independent auditor during that period. We derived the selected financial data as of March 31, 2006 and for the three months ended March 31, 2005 and 2006 from our unaudited interim condensed consolidated financial statements included elsewhere in this prospectus supplement. In our opinion, the unaudited interim condensed consolidated financial statements have been prepared on a basis consistent with the audited financial statements and include all adjustments, which are normal recurring adjustments, necessary for a fair presentation of the financial position and results of operations for the unaudited periods presented.

	Years Ended December 31,					Three Months March 31,	
	2001	2002	2003	2004	2005	2005	2006
	(dollars in thousands except per share amounts)					(unaudited)	
CONSOLIDATED STATEMENT OF OPERATIONS DATA:							
Service revenue, net	$ 3,018	$ 51,913	$ 59,422	$ 91,286	$ 135,213	$ 34,414	$ 34,447
Operating expenses:							
Network operations (exclusive of equity-based compensation expense)	19,990	49,091	47,017	63,466	85,794	22,937	20,337
Equity-based compensation expense cost of network operations	307	233	1,307	858	399	96	105
Selling, general, and administrative (exclusive of equity-based compensation expense)	27,322	33,495	26,570	40,382	41,344	10,296	10,785
Equity-based compensation expense SG&A	2,958	3,098	17,368	11,404	12,906	3,099	3,394
Gain on settlement of vendor litigation		(5,721)					
Terminated public offering costs				779			
Restructuring charges				1,821	1,319		
Depreciation and amortization	13,535	33,990	48,387	56,645	55,600	13,680	14,144
Total operating expenses	64,112	114,186	140,649	175,355	197,362	50,108	48,765
Operating loss	(61,094)	(62,273)	(81,227)	(84,069)	(62,149)	(15,694)	(14,318)
Settlement of note holder litigation		(3,468)					
Gains lease obligation restructurings				5,292	844		
Gain Allied Riser note exchange			24,802				
Gains Cisco credit facility			215,432		842		
Gain dispositions of assets					3,372	3,372	
Interest expense and other, net	(5,819)	(34,545)	(18,264)	(10,883)	(10,427)	(2,651)	(2,123)
(Loss) income before extraordinary gain	(66,913)	(100,286)	140,743	(89,660)	(67,518)	(14,973)	(16,441)
Extraordinary gain Allied Riser merger		8,443					

	Years Ended December 31,					Three Months March 31,	
Net (loss) income	(66,913)	(91,843)	140,743	(89,660)	(67,518)	(14,973)	(16,441)
Beneficial conversion charges	(24,168)		(52,000)	(43,986)			
Net (loss) income applicable to common shareholders	$ (91,081)	$ (91,843)	$ 88,743	$ (133,646)	$ (67,518)	$ (14,973)	$ (16,441)
Net (loss) income per common share available to common shareholders basic	$ (1,295.60)	$ (564.45)	$ 11.18	$ (175.03)	$ (1.96)	$ (0.96)	$ (0.38)
Net (loss) income per common share available common shareholders diluted	$ (1,295.60)	$ (564.45)	$ 11.18	$ (175.03)	$ (1.96)	$ (0.96)	$ (0.38)
Weighted-average common shares basic	70,300	162,712	7,935,831	763,540	34,439,937	15,610,722	43,841,837
Weighted-average common shares diluted	70,300	162,712	7,938,898	763,540	34,439,937	15,610,722	43,841,837

CONSOLIDATED BALANCE SHEET DATA (AT PERIOD END):							
Cash and cash equivalents	$ 49,017	$ 39,314	$ 7,875	$ 13,844	$ 29,883	$ 17,312	$ 20,611
Total assets	319,769	407,677	344,440	378,586	351,373	374,287	333,118
Long-term debt (including capital leases and current portion) (net of unamortized discount of $78,140 in 2002, $6,084 in 2003, $5,026 in 2004, $3,478 in 2005, $4,688 at March 31, 2005 and $2,983 at March 31, 2006)	202,740	347,930	83,702	126,382	99,105	141,033	96,560
Preferred stock	177,246	175,246	97,681	139,825			
Stockholders' equity	110,214	32,626	244,754	212,490	221,001	200,307	208,161
OTHER OPERATING DATA:							
Net cash used in operating activities	(46,786)	(41,567)	(27,357)	(26,425)	(9,062)	(6,622)	(1,591)
Net cash used in investing activities	(131,652)	(19,786)	(25,316)	(2,701)	(14,055)	(2,811)	(3,916)
Net cash provided by (used in) financing activities	161,862	51,694	20,562	34,486	39,824	13,211	(3,738)

All share and per-share data in the table above reflects the 1-for-20 reverse stock split that occurred in March 2005. In February 2005, all of our preferred stock was converted into common stock.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis together with "Selected Consolidated Financial and Other Data" and our consolidated financial statements and related notes included in this prospectus supplement. The discussion in this prospectus supplement contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. The cautionary statements made in this prospectus supplement should be read as applying to all related forward-looking statements wherever they appear in this prospectus supplement. Our actual results could differ materially from those discussed here. Factors that could cause or contribute to these differences include those discussed in "Risk Factors," as well as those discussed elsewhere. You should read "Risk Factors" and "Special Note Regarding Forward-Looking Statements."

General Overview

We are a leading facilities-based provider of low-cost, high-speed Internet access and IP communications services. Our network is specifically designed and optimized to transmit data using IP. IP networks are significantly less expensive to operate and are able to achieve higher performance levels than the traditional circuit-switched networks used by our competitors, thus giving us cost and performance advantages in our industry. We deliver our services to small and medium-sized businesses, communications service providers and other bandwidth-intensive organizations through approximately 10,000 customer connections in North America and Western Europe. Our primary on-net service is Internet access at a speed of 100 Megabits per second, much faster than typical Internet access currently offered to businesses. We offer this on-net service exclusively through our own facilities, which run all the way to our customers' premises.

Our network is comprised of in-building riser facilities, metropolitan optical fiber networks, metropolitan traffic aggregation points and inter-city transport facilities. The network is physically connected entirely through our facilities to 1,053 buildings in which we provide our on-net services, including over 820 multi-tenant office buildings. We also provide on-net services in carrier-neutral colocation facilities, data centers and single-tenant office buildings. Because of our integrated network architecture, we are not dependent on local telephone companies to serve our on-net customers. We emphasize the sale of on-net services because we believe we have a competitive advantage in providing these services and our sales of these services generate higher gross profit margins.

We also provide Internet connectivity to customers that are not located in buildings directly connected to our network. We serve these off-net customers using other carriers' facilities to provide the last mile portion of the link from our customers' premises to our network. We also provide certain non-core services which are legacy services which we acquired and continue to support but do not actively sell.

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

We plan to expand our network to locations that can be economically integrated and represent significant concentrations of Internet traffic. We may identify locations that we desire to serve with our on-net product but cannot be cost effectively added to our network. One of our keys to developing a profitable business will be to carefully match the expense of extending our network to reach new customers with the revenue generated by those customers.

We believe the two most important trends in our industry are the continued growth in Internet traffic and a decline in Internet access prices. As Internet traffic continues to grow and prices per unit of traffic continue to decline, we believe our ability to load our network and gain market share from less efficient network operators will expand. However, continued erosion in Internet access prices will likely have a negative impact on the rate at which we can increase our revenues and our profit margins.

We have grown our net service revenue from $59.4 million for the year ended December 31, 2003 to $135.2 million for the year ended December 31, 2005. Our net service revenue was $34.4 million for both the three month periods ended March 31, 2005 and March 31, 2006. We have generated our revenue growth through the strategic acquisitions of communications network assets and customers, primarily from financially distressed companies, the continued expansion of our network of on-net buildings and the increase in customers generated by our sales and marketing efforts.

Our on-net service consists of high-speed Internet access and IP connectivity ranging from 0.5 Megabits per second to 10 Gigabits per second of bandwidth. We offer our on-net services to customers located in buildings that are physically connected to our network. Off-net services are sold to businesses that are connected to our network primarily by means of T1, T3, E1 and E3 lines obtained from other carriers. Our non-core services, which consist of legacy services of companies whose assets or businesses we have acquired, include managed modem services, email, retail dial-up Internet access, shared web hosting, managed web hosting, managed security, voice services (only provided in Toronto, Canada), point to point private line services, and services that were provided to LambdaNet Germany under a network sharing arrangement as discussed below. We do not actively market these non-core services and expect the net service revenue associated with them to continue to decline.

Our on-net, off-net and non-core services comprised 63.5%, 24.4% and 12.1% of our net service revenue, respectively, for the year ended December 31, 2004, 57.9%, 33.0% and 9.1%, respectively, for the year ended December 31, 2005, 52.9%, 37.0% and 10.1%, respectively, for the three months ended March 31, 2005 and 65.9%, 26.5% and 7.6%, respectively, for the same period in 2006. While we target our sales and marketing efforts at increasing on-net customers, customers we add through acquisitions will also affect the mix of on-net and off-net revenues. For example, off-net service revenue increased as a percentage of total revenue in 2005 as compared to 2004 due to the inclusion of a full year of revenue from customers we added through our December 2004 acquisition of the off-net Internet access customers of Verio, Inc. We expect the percentage of on-net revenues to continue to increase as a percentage of total revenues in 2006.

We have grown our gross profit from $12.4 million for the year ended December 31, 2003 to $49.4 million for the year ended December 31, 2005 and from $11.5 million for the three months ended March 31, 2005 to $14.1 million for the same period in March 31, 2006. Our gross profit margin has expanded from 20.9% in 2003 to 36.5% for the year ended December 31, 2005 and from 33.3% for the three months ended March 31, 2005 to 41.0% for the same period in 2006. We determine gross profit by subtracting network operation expenses (excluding equity-based compensation expense) from our net service revenue. Equity-based compensation expense classified as cost of network services was $1.3 million, $0.9 million and $0.4 million for the years ended December 31, 2003, 2004 and 2005, respectively, and $0.1 million and $0.1 million for the three months ended March 31, 2005 and 2006, respectively. We believe that our gross profit will benefit and continue to expand as we are allocating the majority of our sales resources toward obtaining additional on-net customers and as sales of these services generate higher gross profit margins than our off-net and non-core services. We believe that as we add on-net customers we incur limited incremental expenses. We have not allocated depreciation and amortization expense to our network operations expense.

Due to our strategic acquisitions of network assets and equipment, we believe we are positioned to grow our revenue base and profitability without significant additional capital investments. We continue to deploy network equipment to other parts of our network to maximize the utilization of our assets.

As a result, our future capital expenditures will be based primarily on our planned addition of on-net buildings and the concentration and growth of our customer base. We expect our capital expenditure rate in 2006 to be similar to the rate we experienced for 2005. We plan to increase our number of on-net buildings to approximately 1,100 by December 31, 2006 from 1,053 at March 31, 2006.

Historically, our operating expenses have exceeded our net service revenue resulting in operating losses of $81.2 million, $84.1 million and $62.1 million in 2003, 2004 and 2005, respectively, and $15.7 million and $14.3 million for the first three months ended March 31, 2005 and 2006, respectively. In each of these periods, our operating expenses consisted primarily of the following:

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

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

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

- Restructuring charges that resulted from the termination of our Paris office lease.

- Equity-based compensation expense that results from the grants of stock options and restricted stock.

Acquisitions

Since our inception, we have consummated 13 acquisitions through which we have generated revenue growth, expanded our network and customer base and added strategic assets to our business. We have accomplished this primarily by acquiring financially distressed companies or their assets at a significant discount to their original cost. The overall impact of these acquisitions on the operation of our business has been to extend the physical reach of our network in both North America and Western Europe, expand the breadth of our service offerings, and increase the number of customers to whom we provide our services. The overall impact of these acquisitions on our balance sheet and cash flows has been to significantly increase the assets on our balance sheet, including cash in the case of the Allied Riser merger, increase our indebtedness and increase our cash flows from operations due to our increased customer base. A substantial portion of our historical growth in net service revenue and specifically off-net and non-core revenues has been generated by the customer contracts we have acquired. Following an acquisition, we have historically experienced a decline in revenue attributable to acquired customers as these customers' contracts have expired and they have entered into standard Cogent customer contracts at generally lower rates or have chosen not to renew service with us. We anticipate that we will experience similar declines with respect to customers we have acquired or will acquire.

Acquisition of Verio

In December 2004, we acquired most of the off-net Internet access customers of Verio Inc., a leading global IP provider and subsidiary of NTT Communications Corp. The acquired assets included over 3,700 primarily off-net customer connections located in 23 of our U.S. markets, customer accounts receivable and certain network equipment. We also assumed the liabilities associated with providing services to these customers including vendor relationships, accounts payable, and accrued liabilities.

Acquisition of Aleron

In October 2004, we acquired certain assets of Aleron Broadband Services, formally known as AGIS Internet, and $18.5 million in cash, in exchange for 3,700 shares of our Series M participating preferred stock, which converted into approximately 5.7 million shares of our common stock in February 2005. We acquired Aleron's customer base and network, as well as Aleron's Internet access and managed modem services.

Acquisition of Global Access

In September 2004, we acquired the majority of the assets of Global Access Telecommunications, Inc. in exchange for 185 shares of our Series L participating preferred stock. The Series L participating preferred stock issued in the transaction converted into approximately 0.3 million shares of our common stock in February 2005. Global Access provided Internet access and other data services in Germany. We acquired over 350 customer connections in Germany as a result of the acquisition.

Acquisition of UFO

In August 2004, we acquired certain assets of Unlimited Fiber Optics, Inc., or UFO, for 2,600 shares of our Series K participating preferred stock. The Series K participating preferred stock issued in the merger converted into approximately 0.8 million shares of our common stock in February 2005. Among these assets were UFO's customer base, which was comprised of data service customers located in San Francisco and Los Angeles. The acquired assets also included net cash of approximately $1.9 million and customer accounts receivable.

Acquisition of European Network

In 2004 we expanded our operations into Europe through a series of acquisitions in which we acquired customers and extended our network, primarily in France, Spain, and Germany.

In September 2003, we began exploring the possibility of acquiring LNG Holdings SA, or LNG, an operator of a European telecommunications network that was on the verge of insolvency. We determined that an acquisition of LNG in whole was not advisable at that time; however, the private equity funds that owned LNG refused to consider a transaction in which we would acquire only parts of the network. In order to prevent LNG from liquidating and to preserve our ability to structure an acceptable acquisition, in November 2003, our Chief Executive Officer formed a corporation that acquired a 90% interest in LNG in return for a commitment to cause at least $2 million to be invested in LNG's subsidiary LambdaNet France and an indemnification of LNG's selling stockholders by us and the acquiring corporation. In November 2003, we reached an agreement with investment funds associated with BNP Paribas and certain of our existing investors regarding the acquisition of the LNG networks in France, Spain and Germany.

We completed the first step of the European network acquisition in January 2004. The investors funded a corporation that they controlled with $2.5 million and acquired Firstmark Communications Participation S.à r.l., now named Cogent Europe S.à r.l., from LNG for one euro. Cogent Europe S.à r.l., or Cogent Europe, is the parent holding company of LambdaNet France, now named Cogent France, and LambdaNet Spain, now named Cogent Spain and our other European subsidiaries. As consideration, the investors, through the corporation they controlled, entered into a commitment to use reasonable efforts to cause LNG to be released from a guarantee of certain obligations of LambdaNet France and a commitment to fund LambdaNet France with $2.0 million. That corporation was then merged into one of our subsidiaries in a transaction in which the investors received 2,575 shares of Series I participating preferred stock that converted into approximately 0.8 million shares of our common stock in February 2005.

The planned second step of the transaction was the acquisition of the German network of LNG. We attempted to structure an acceptable acquisition that would have entailed using $19.5 million allocated by the investors to restructure the existing bank debt of LambdaNet Germany; however, we subsequently concluded that it was unlikely that we could structure an acceptable acquisition of LambdaNet Germany and we began to seek an alternative German network acquisition in order to complete the European portion of our network and meet the conditions required to cause the investors to fund $19.5 million.

In March 2004, we identified network assets in Germany formerly operated as part of the Carrier 1 network as an attractive acquisition opportunity. Pursuant to the November commitment, the investors funded a newly formed Delaware corporation with $19.5 million, and the corporation through a German subsidiary acquired the rights to certain assets of the Carrier 1 network in return for $2.7 million. That corporation then was merged into one of our subsidiaries, Cogent Germany, in a transaction in which the investors received shares of our Series J participating preferred stock that converted into approximately 6.0 million shares of our common stock in February 2005.

Acquisition of FNSI

In February 2003, we acquired the assets of Fiber Network Services, Inc., or FNSI, an Internet service provider in the Midwestern United States, in exchange for options to purchase 6,000 shares of our common stock and the assumption of certain of FNSI's liabilities. With the acquisition of FNSI assets we expanded our off-net services.

Acquisition of PSINet

In April 2002, we purchased the principal U.S. assets of PSINet, Inc. out of bankruptcy in exchange for $9.5 million and the assumption of certain liabilities. With the acquisition of PSINet assets we began to offer our off-net service and acquired significant non-core services.

Allied Riser Merger

In February 2002, we acquired Allied Riser Communications Corporation, a facilities-based provider of broadband data, video and voice communications services to small and medium-sized businesses in the United States and Canada in exchange for the issuance of approximately 0.1 million shares of our common stock. As a result of the merger, Allied Riser became a wholly owned subsidiary. In connection with the merger, we became co-obligor under Allied Riser's $7^1/_2$% Convertible Subordinated Notes which are due in June 2007. The aggregate principal amount of these notes is $10.2 million.

Results of Operations

Our management reviews and analyzes several key performance indicators in order to manage our business and assess the quality of and potential variability of our net service revenues and cash flows. These key performance indicators include:

- net service revenues, which are an indicator of our overall business growth and the success of our sales and marketing efforts;
- gross profit, which is an indicator of both our service offering mix, competitive pricing pressures and the cost of our network operations;
- growth in our on-net customer base, which is an indicator of the success of our on-net focused sales efforts;
- growth in our on-net buildings; and
- distribution of revenue across our service offerings.

Three Months Ended March 31, 2005 Compared to the Three Months Ended March 31, 2006

The following summary table presents a comparison of our results of operations for the three months ended March 31, 2005 and 2006 with respect to certain key financial measures. The comparisons illustrated in the table are discussed in greater detail below.

	Three months ended March 31,		
	2005	**2006**	**Percent Change**
	(in thousands)		
Net service revenue	$ 34,414	$ 34,447	0.1%
Network operations expenses (1)	22,937	20,337	(11.3)%
Gross profit (2)	11,477	14,110	22.9%
Selling, general, and administrative expenses (3)	10,296	10,785	4.7%
Depreciation and amortization expenses	13,680	14,144	3.4%
Gains asset sales	3,372		100.0%
Net loss	(14,973)	(16,441)	9.8%

(1) Excludes equity-based compensation expenses of $96 and $105 in the three months ended March 31, 2005 and 2006, respectively, which if included would have resulted in a period-to-period change of (11.2)%.

(2) Excludes equity-based compensation expenses of $96 and $105 in the three months ended March 31, 2005 and 2006, respectively, which if included would have resulted in a period-to-period change of 23.1%.

(3) Excludes equity-based compensation expenses of $3,099 and $3,394 in the three months ended March 31, 2005 and 2006, respectively, which if included would have resulted in a period-to-period change of 5.9%.

Net Service Revenue. Our net service revenue was $34.4 million for both the three month periods ended March 31, 2005 and March 31, 2006. For the three months ended March 31, 2005 and 2006, on-net, off-net and non-core revenues represented 52.9%, 37.0% and 10.1% and 65.9%, 26.5% and 7.6% of our net service revenues, respectively.

Our on-net revenues increased 24.6% from $18.2 million for the three months ended March 31, 2005 to $22.7 million for the three months ended March 31, 2006. Our on-net revenues increased as we increased the number of our on-net customer connections from approximately 3,200 at March 31, 2005 to approximately 5,300 at March 31, 2006. On-net customer connections increased at a greater rate than on-net revenues due to a decline in the price per on-net customer connection. This decline is partly attributed to a shift in the customer connection mix and our increased sales force focusing their efforts toward a greater percentage of customers who purchase lower bandwidth connections, which we expect to continue. We believe that our on-net revenues as a percentage of total revenues will continue to increase as we are allocating the majority of our sales and marketing resources toward obtaining additional on-net customers. Our off-net revenues decreased 28.5% from $12.7 million for the three months ended March 31, 2005 to $9.1 million for the three months ended March 31, 2006 primarily because our December 2004 acquisition of off-net customers from Verio resulted in a substantial increase in the number of our off-net customers during the first quarter of 2005. Many of these acquired customers have either cancelled service or re-priced their contracts at lower rates. Our off-net customer connections declined from approximately 4,500 at March 31, 2005 to approximately 3,600 at March 31, 2006. We expect that the net loss of off-net customer connections will continue. Our non-core revenues decreased 23.5% from $3.5 million for the three months ended March 31, 2005 to $2.6 million for the three months ending March 31, 2005. The number of our non-core customer connections declined from approximately 1,700 at March 31, 2005 to approximately 1,200 at March 31,

2006. We do not actively market these acquired non-core services and expect that the net service revenue associated with them will continue to decline.

Network Operations Expenses.