COGENT COMMUNICATIONS GROUP INC
Form 10-Q
November 09, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2009

OR

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

Commission File No. 1-31227

COGENT COMMUNICATIONS GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**52-2337274**
(State of Incorporation)	(I.R.S. Employer Identification Number)

1015 31st Street N.W.
Washington, D.C. 20007
(Address of Principal Executive Offices and Zip Code)

(202) 295-4200
(Registrant s Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock, $.001 par value 44,575,614 outstanding as of October 31, 2009

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COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2008 AND SEPTEMBER 30, 2009

(IN THOUSANDS, EXCEPT SHARE DATA)

	December 31, 2008 (Adjusted)	September 30, 2009 (Unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 71,291	$ 51,114
Short term investments - restricted	62	
Accounts receivable, net of allowance for doubtful accounts of $1,914 and $2,531, respectively	22,174	24,090
Prepaid expenses and other current assets	6,389	8,111
Total current assets	99,916	83,315
Property and equipment, net	243,939	267,364
Deposits and other assets - $1,091 and $634 restricted, respectively	3,938	3,670
Total assets	$ 347,793	$ 354,349
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 12,795	$ 15,089
Accrued liabilities	14,756	16,089
Current maturities, capital lease obligations	5,940	10,841
Total current liabilities	33,491	42,019
Capital lease obligations, net of current maturities	98,253	99,160
Convertible senior notes, net of discount of $30,253 and $26,881 respectively	61,725	65,097
Other long term liabilities	3,374	3,465
Total liabilities	196,843	209,741
Commitments and contingencies:		
Stockholders equity:		
Common stock, $0.001 par value; 75,000,000 shares authorized; 44,318,949 and 44,574,318 shares issued and outstanding, respectively	44	45
Additional paid-in capital	465,114	473,599
Stock purchase warrants	764	283
Accumulated other comprehensive income foreign currency translation adjustment	572	2,117
Accumulated deficit	(315,544)	(331,436)
Total stockholders equity	150,950	144,608
Total liabilities and stockholders equity	$ 347,793	$ 354,349

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

The condensed consolidated balance sheet as of December 31, 2008 has been restated for the retrospective application of FASB Accounting Standards Codification Subtopic 470-20 Debt with Conversion and Other Options (ASC 470-20).

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COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008 AND SEPTEMBER 30, 2009

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	Three Months Ended September 30, 2008 (Unaudited & adjusted)	Three Months Ended September 30, 2009 (Unaudited)
Service revenue	$ 54,594	$ 60,229
Operating expenses:		
Network operations (including $80 and $25 of equity-based compensation expense, respectively, exclusive of amounts shown separately)	24,139	26,400
Selling, general, and administrative (including $3,943 and $1,242 of equity-based compensation expense, respectively, and $1,409 and $1,157 of bad debt expense, net of recoveries, respectively)	20,346	18,089
Depreciation and amortization	15,494	15,282
Total operating expenses	59,979	59,771
Operating (loss) income	(5,385)	458
Gain purchase of convertible notes	3,245	
Interest income and other, net	751	231
Interest expense	(5,112)	(4,022)
Loss before income taxes	(6,501)	(3,333)
Income tax (provision) benefit		54
Net loss	$ (6,501)	$ (3,279)
Net loss per common share:		
Basic and diluted net loss per common share	$ (0.15)	$ (0.07)
Weighted-average common shares basic and diluted	43,593,205	43,894,098

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

The condensed consolidated statement of operations for the three months ended September 30, 2008 has been restated for the retrospective application of ASC 470-20.

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COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND SEPTEMBER 30, 2009

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	Nine months Ended September 30, 2008 (Unaudited & adjusted)	Nine months Ended September 30, 2009 (Unaudited)
Service revenue	$ 160,564	$ 173,295
Operating expenses:		
Network operations (including $248 and $149 of equity-based compensation expense, respectively, exclusive of amounts shown separately)	69,217	75,153
Selling, general, and administrative (including $13,366 and $7,281 of equity-based compensation expense, respectively, and $3,246 and $3,562 of bad debt expense, net of recoveries, respectively)	59,768	58,158
Asset impairment	1,592	
Depreciation and amortization	47,619	45,128
Total operating expenses	178,196	178,439
Operating loss	(17,632)	(5,144)
Gain purchase of convertible notes	3,245	
Interest income and other, net	3,127	932
Interest expense	(14,449)	(11,655)
Loss before income taxes	(25,709)	(15,867)
Income tax provision		(25)
Net loss	$ (25,709)	$ (15,892)
Net loss per common share:		
Basic and diluted net loss per common share	$ (0.57)	$ (0.36)
Weighted-average common shares basic and diluted	45,123,241	43,785,352

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

The condensed consolidated statement of operations for the nine months ended September 30, 2008 has been restated for the retrospective application of ASC 470-20.

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COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND SEPTEMBER 30, 2009

(IN THOUSANDS)

	Nine months Ended September 30, 2008 (Unaudited)	Nine months Ended September 30, 2009 (Unaudited)
Cash flows from operating activities:		
Net cash provided by operating activities	$ 43,543	$ 40,598
Cash flows from investing activities:		
Purchases of property and equipment	(28,322)	(41,800)
Maturities of short term investments - restricted	650	62
Purchase of other assets		(246)
Proceeds from dispositions of assets	106	97
Net cash used in investing activities	(27,566)	(41,887)
Cash flows from financing activities:		
Purchases of common stock	(58,032)	(730)
Purchase of convertible notes	(9,941)	
Proceeds from exercises of stock options	121	346
Repayments of capital lease obligations	(15,605)	(19,214)
Net cash used in financing activities	(83,457)	(19,598)
Effect of exchange rate changes on cash	(491)	710
Net decrease in cash and cash equivalents	(67,971)	(20,177)
Cash and cash equivalents, beginning of period	177,021	71,291
Cash and cash equivalents, end of period	$ 109,050	$ 51,114

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

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COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 and 2009
(unaudited)

1. Description of the business and recent developments:

Description of business

Cogent Communications Group, Inc. (the Company) is a Delaware corporation and is headquartered in Washington, DC. The Company is a facilities-based provider of low-cost, high-speed Internet access and Internet Protocol (IP) communications services. The Company s network is specifically designed and optimized to transmit data using IP. The Company delivers its services to small and medium-sized businesses, communications service providers and other bandwidth-intensive organizations through approximately 21,000 customer connections in North America and Europe.

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

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

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the unaudited condensed consolidated financial statements reflect all normal recurring adjustments that the Company considers necessary for the fair presentation of its results of operations and cash flows for the interim periods covered, and of the financial position of the Company at the date of the interim condensed consolidated balance sheet. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles 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 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 included in its 2008 annual report on Form 10-K.

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

Use of estimates

The preparation of consolidated financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

Foreign currency translation adjustment and comprehensive loss

The Company s only component of other comprehensive income is the currency translation adjustment for all periods presented.

	Three months ended September 30, 2008	Three months ended September 30, 2009	Nine months ended September 30, 2008	Nine months ended September 30, 2009
Net loss	$ (6,501)	$ (3,279)	$ (25,709)	$ (15,892)
Currency translation	(2,611)	1,313	(1,124)	1,545
Comprehensive loss	$ (9,112)	$ (1,966)	$ (26,833)	$ (14,347)

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Financial instruments

The Company was party to letters of credit totaling approximately $0.9 million at December 31, 2008 and $0.6 million September 30, 2009. These letters of credit are secured by certificates of deposit and money market funds of approximately $1.2 million at December 31, 2008 and $0.6 million at September 30, 2009 that are restricted and included in short-term investments and deposits and other assets in the accompanying balance sheets.

At September 30, 2009 and December 31, 2008, the carrying amount of cash and cash equivalents, short-term investments, accounts receivable, prepaid and other current assets, accounts payable, and accrued expenses approximated fair value because of the short-term nature of these instruments. The Company measures its cash equivalents (money market funds) at fair value based upon quoted market prices (Level 1 under Accounting Standard Codification, 820 Fair Value Measurements and Disclosures). Based upon the quoted market price (Level 1) at September 30, 2009, the fair value of the Company s $92.0 million convertible senior notes was approximately $61.9 million.

Basic and diluted net (loss) income per common share

Basic EPS excludes dilution for common stock equivalents and is computed by dividing net income or (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is based on the weighted-average number of shares of common stock outstanding during each period, adjusted for the effect of common stock equivalents, if dilutive.

Shares of restricted stock are included in the computation of basic EPS as they vest and are included in diluted EPS, to the extent they are dilutive, determined using the treasury stock method. As of September 30, 2008 and September 30, 2009, 1.7 million and 0.6 million unvested shares of restricted common stock, respectively, are excluded from the computation of basic and diluted loss per share.

Using the if-converted method, the shares issuable upon conversion of the Company s 1.00% Convertible Senior Notes (the Notes) were anti-dilutive for the three and nine months ended September 30, 2008 and 2009. Accordingly, the impact has been excluded from the computation of diluted income or (loss) per share. The Notes are convertible into shares of the Company s common stock at an initial conversion price of $49.18 per share, yielding 3.7 million and 1.9 million shares at September 30, 2008 and September 30, 2009, respectively, subject to certain adjustments set forth in the indenture.

The Company computes the dilutive effect of outstanding options using the treasury stock method. For the three and nine months ended September 30, 2008 and 2009, options to purchase 1.1 million and 0.7 million shares of common stock, respectively, at weighted-average exercise prices of $5.79 and $7.67 per share, respectively, are not included in the computation of diluted (loss) per share as the effect would be anti-dilutive. For the three and nine months ended September 30, 2008 and 2009, the Company s employees exercised options for approximately 6,000, 49,000, 159,000 and 365,000 common shares, respectively.

Recent accounting pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued FASB ASC 105, Generally Accepted Accounting Principles which establishes the FASB Accounting Standards Codification (ASC) as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, the Company has updated references to GAAP in its financial statements issued for the period ended September 30, 2009. The adoption of FASB ASC 105 did not impact the Company s financial position or results of operations.

On January 1, 2009, the Company adopted the provisions of Codification Subtopic 470-20, Debt, Debt with Conversion and Other Options (ASC 470-20). ASC 470-20 clarifies the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. ASC 470-20 requires issuers to account separately for the liability and equity components of certain convertible debt instruments in a manner that reflects the issuer s nonconvertible debt borrowing rate when interest cost is recognized. ASC 470-20 requires bifurcation of a component of the debt, classification of that component in equity and the amortization of the resulting discount on the debt to be recognized as part of interest expense in the Company s consolidated statements of operations.

Once adopted, ASC 470-20 requires retrospective application for all periods presented for instruments that were outstanding during any of the periods presented in the consolidated financial statements. The adoption of ASC 470-20 affected the accounting for the Company s 1.00% Convertible Senior Notes (the Notes). The retrospective application of this pronouncement affects the period from June 2007 (when the Notes were issued) through December 31, 2008.

The following table sets forth the effect of the retrospective application of ASC 470-20 on certain previously reported line items (in thousands, except per share data):

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Consolidated Statements of Operations:

	Three Months ended September 30, 2008	
	Originally Reported	As Adjusted
Interest expense	$ (3,028)	$ (5,112)
Gain purchase of convertible notes	9,735	3,245
Net income (loss)	2,073	(6,501)
Basic and diluted income (loss) per share	$ 0.05	$ (0.15)
Weighted average common shares - diluted	44,276,989	43,593,205

	Nine months ended September 30, 2008	
	Originally Reported	As Adjusted
Interest expense	$ (8,250)	$ (14,449)
Gain purchase of convertible notes	9,735	3,245
Net loss	(13,020)	(25,709)
Basic and diluted loss per share	$ (0.29)	$ (0.57)

Consolidated Balance Sheet:

	December 31, 2008	
	Originally Reported	As Adjusted
Deposits and other assets	$ 3,986	$ 3,938
Convertible senior notes	90,367	61,725
Additional paid-in capital	390,181	465,114
Accumulated deficit	(269,205)	(315,544)
Total stockholders equity	122,356	150,950

The Company has adopted the provisions of ASC 820 Fair Value Measurements and Disclosures (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The adoption of the various provisions of ASC 820 did not have a material effect on the Company s consolidated financial position, results of operations or cash flows.

The Company evaluates its freestanding financial instruments, or embedded features, under the provisions of ASC 815-40 Derivatives and Hedging Contracts in Entity s Own Equity (ASC 815-40) to determine if they are considered indexed to its stock. If the instrument or embedded feature is not eligible for equity classification it would be classified as an asset or liability and remeasured at fair value through earnings. The Company has determined that its embedded conversion features are considered indexed to its stock. As a result, the adoption of ASC 815-40 did not have a material impact on the Company s consolidated financial position, results of operations, or cash flows.

The Company accounts for its acquisitions under the provisions of ASC 805 Business Combinations (ASC 805). ASC 805 establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree and recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase. ASC 805 also sets forth the disclosures required to be made in the financial statements to evaluate the nature and financial effects of the business combination. There have been no material acquisitions by the Company since January 1, 2009, as a result there has been no material impact related to the Company s adoption of ASC 805.

ASC 855 Subsequent Events establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The Company has adopted the provisions of ASC 855 and has evaluated subsequent events through the date of this filing November 9, 2009.

2. Property and equipment:

Depreciation and amortization expense related to property and equipment and capital leases was $15.5 million and $15.2 million for the three months ended September 30, 2008 and 2009, respectively, and was $47.6 million and $44.9 million for the nine months ended September 30, 2008 and 2009, respectively.

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Capitalized network construction labor and related costs

The Company capitalized salaries and related benefits of employees working directly on the construction and build-out of its network of $1.0 million and $0.9 million for the three months ended September 30, 2008 and 2009, respectively, and $3.1 million and $3.5 million for the nine months ended September 30, 2008 and 2009, respectively.

3. Long -term debt:

Convertible Senior Notes

In June 2007, the Company issued its 1.00% Convertible Senior Notes (the Notes) due June 15, 2027, for an aggregate principal amount of $200.0 million in a private offering for resale to qualified institutional buyers pursuant to SEC Rule 144A. The Notes are unsecured and bear interest at 1.00% per annum. Interest is payable in cash semiannually in arrears on June 15 and December 15, of each year, beginning on December 15, 2007. The Company received proceeds of approximately $195.1 million, after deducting the original issue discount of 2.25% and issuance costs.

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

As a result of the adoption of ASC 470-20, the Company was required to separately account for the debt and equity components of the Notes in a manner that reflects its nonconvertible debt (unsecured debt) borrowing rate when interest expense is recognized. The debt and equity components for the Notes were as follows (in thousands):

	December 31, 2008	September 30, 2009
Principal amount of convertible senior notes	$ 91,978	$ 91,978
Unamortized discount	(30,253)	(26,881)
Net carrying amount	61,725	65,097

Additional paid-in capital	74,933	74,933

At September 30, 2009, the unamortized discount had a remaining recognition period of approximately 5 years. The additional interest expense recorded from the increase in the debt discount during the three and nine months ended September 30, 2008 was approximately $2.1 million and $6.2 million, respectively or $0.05 and $0.14 per basic and diluted common share, respectively. The amount of interest expense recognized and effective interest rate for the three and nine months ended September 30, 2008 and 2009 were as follows (in thousands):

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2009
Contractual coupon interest	$ 488	$ 230
Amortization of discount and costs on Notes	2,250	1,151
Interest expense	$ 2,738	$ 1,381
Effective interest rate	8.7%	8.7%

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	Nine months Ended September 30, 2008	Nine months Ended September 30, 2009
Contractual coupon interest	$ 1,488	$ 690
Amortization of discount and costs on Notes	6,706	3,382
Interest expense	$ 8,194	$ 4,072
Effective interest rate	8.7%	8.7%

Purchases of Notes

In 2008, the Company purchased an aggregate of $108.0 million of face value of the Notes for $48.6 million in cash in a series of transactions. These transactions resulted in a restated gain, after the impact of the adoption of ASC 470-20, of $23.1 million for the year ended December 31, 2008. The originally recorded gain was $57.6 million for the year ended December 31, 2008. The September 2008 purchase was for $20.0 million of face value of the Notes for $9.9 million in cash. This transaction resulted in an originally recorded gain and restated gain for three and nine months ended September 30, 2008 of $9.7 million and $3.2 million, respectively.

4. Share Buyback Program:

In August 2007, the Company s board of directors approved a $50.0 million common stock buyback program (the Buyback Program). In June 2008, the Company s board of directors approved an additional $50.0 million of purchases of the Company s common stock under the Buyback Program to occur prior to December 31, 2009. In the nine months ended September 30, 2008 and 2009, the Company purchased approximately 4.0 million and 0.1 million shares of its common stock, respectively, for approximately $58.0 million and $0.7 million, respectively, under the Buyback Program. These common shares were subsequently retired. There were no purchases in the three months ended September 30, 2009. As of September 30, 2009, there was approximately $30.1 million remaining under the Buyback Program.

5. Contingencies:

Current and potential litigation

The Company is involved in disputes with certain telephone companies that provide it local circuits or leased optical fibers and with the bankruptcy estate of a former customer. The total amount claimed by these vendors and the estate is approximately $1.8 million. The Company does not believe any of these amounts are owed and intends to vigorously defend its position and believes that it has adequately reserved for any potential liability.

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

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

Allied Riser warrants

In connection with the February 2002 merger with Allied Riser, the Company assumed warrants issued by Allied Riser that could convert into approximately 5,200 shares of the Company s common stock. During the nine months ended September 30, 2009, warrants with a carrying amount of approximately $0.5 million expired resulting in a reduction to warrants and a corresponding increase to additional paid-in capital of $0.5 million.

Purchase agreement

In June 2009, the Company entered into an amended equipment purchase agreement with a vendor. Under the agreement, and prior agreements the Company will be required to purchase equipment totaling approximately $26 million through 2011.

6. Related party transactions:

Office lease

The Company s headquarters is located in an office building owned by a partnership (6715 Kenilworth Avenue Partnership). The two owners of the partnership are the Company s Chief Executive Officer, who has a 51% interest in the partnership and his wife, Ruth Schaeffer,

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who has a 49% interest in the partnership. The Company paid $0.2 million and $0.5 million for the three and nine months ended September 30, 2008, respectively, and $0.2 million and $0.5 million for the three and nine months ended September 30, 2009, respectively, in rent and related costs (including taxes and utilities) to this partnership. The lease expires in August 2012. The dollar value of the Company s Chief Executive Officer s interest in the lease payments for the nine months ended September 30, 2008 and 2009 was $0.25 million and $0.25 million, respectively. The dollar value of his wife s interest in the lease payment for the nine months ended September 30, 2008 and 2009 was $0.25 million and $0.25 million, respectively. If the Company s Chief Executive Officer s interest is combined with that of his wife then the total dollar value of his interest in the lease payments for the nine months ended September 30, 2008 and 2009 was $0.5 million and $0.5 million, respectively.

7. Segment information:

The Company operates as one operating segment. Below are the Company s service revenue and long lived assets by geographic region (in thousands):

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2009	Nine months Ended September 30, 2008	Nine months Ended September 30, 2009
Revenues				
North America	$ 42,429	$ 46,811	$ 124,011	$ 135,150
Europe	12,165	13,418	36,553	38,145
Total	$ 54,594	$ 60,229	$ 160,564	$ 173,295

	December 31, 2008	September 30, 2009
Long lived assets, net		
North America	$ 197,640	$ 220,554
Europe	46,473	47,036
Total	$ 244,113	$ 267,590

8. Subsequent event:

Revolving line of credit

In October 2009, the Company entered into a $20.0 million revolving line of credit facility with a bank. Borrowings under the facility may be used for general corporate purposes, acquisitions, purchases of the Company s common stock, and purchases of the Company s convertible notes. The facility expires and all amounts must be repaid on October 14, 2010. The Company s ability to draw under the revolving facility is conditioned upon, among other things, (i) the size of the Company s borrowing base, which is comprised of the Company s accounts receivable in the United States and Canada, and amounts the Company has on deposit with the bank; (ii) the Company s ability to make the representations and warranties contained in the loan documents on the date of such borrowing; and (iii) the absence of any default or event of default under its loan documents. The revolving facility has a floating interest rate of one month LIBOR plus 2.5% per annum, subject to a minimum interest rate of 3%.

The Company s obligations under the revolving facility are secured by a lien on the accounts, general intangibles and certain other assets of the Company and its U.S. and Canadian operating subsidiaries. The revolving facility contains customary covenants, including, but not limited to, restrictions on the Company and its U.S. and Canadian operating subsidiaries ability to grant liens or security interests on assets subject to the banks security interest and pay dividends. The revolving facility requires the maintenance of a trailing four quarter ratio of the Company s funded debt to adjusted EBITDA (as defined) of less than 3.0:1.0 and a ratio of the Company s adjusted EBITDA (as defined) less dividends and capital expenditures to its debt constituting current maturities (excluding any amounts due under the revolving credit facility) above 0.9:1 for the quarters ended September 30, 2009 and December 31, 2009 and 1.2:1.0 for the quarters thereafter.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis together with our consolidated condensed financial statements and related notes included in this report. The discussion in this report contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. The cautionary statements made in this report should be read as applying to all related forward-looking statements wherever they appear in this report. Our actual results could differ materially from those discussed here. Factors that could cause or contribute to these differences include those discussed in Item 1A Risk Factors in our annual report on Form 10-K for the fiscal year ended December 31, 2008.

General Overview

We are a leading facilities-based provider of low-cost, high-speed Internet access and IP communications services. Our network is specifically designed and optimized to transmit data using IP. IP networks are significantly less expensive to operate and are able to achieve higher performance levels than the traditional circuit-switched networks used by many of our competitors when providing Internet access services, which, we believe, gives us cost and performance advantages. We deliver our services to small and medium-sized businesses, communications service providers and other bandwidth-intensive organizations through approximately 21,000 customer connections in North America and Europe. Our primary on-net service is Internet access at a speed of 100 Megabits per second or greater, much faster than typical Internet access currently offered to businesses. We offer this on-net service exclusively through our own facilities, which run all the way to our customers premises.

We provide on-net Internet access to our net centric customers, which include certain bandwidth-intensive users such as universities, other Internet service providers, telephone companies, cable television companies and commercial content providers at speeds up to 10 Gigabits per second. These customers generally receive service in colocation facilities and in our data centers. We also offer Internet access services to our corporate customers in multi-tenant office buildings typically serving law firms, financial services firms, advertising and marketing firms and other professional services businesses.

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 1,421 buildings in which we provide our on-net services, including 1,013 multi-tenant office buildings. We also provide on-net services in carrier-neutral colocation facilities, Cogent controlled data centers and single-tenant office buildings. Because of our integrated network architecture, we are not dependent on local telephone companies to serve our on-net customers. We emphasize the sale of on-net services because we believe we have a competitive advantage in providing these services and our sales of these services generate higher gross profit margins than our off-net and non-core services.

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

We believe our key growth 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 profitable customer mix. We are responding to this opportunity by increasing our sales and marketing efforts including increasing our number of sales representatives. In addition, we may add customers to our network through strategic acquisitions.

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

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

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

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

Due to our strategic acquisitions of network assets and equipment, we believe we are positioned to grow our revenue base. We continue to purchase and deploy network equipment to parts of our network to maximize the utilization of our assets and to expand our network. Our future capital expenditures will be based primarily on our planned expansion of our network, the addition of on-net buildings and the concentration and growth of our customer base. We plan to continue to expand our network and to increase our number of on-net buildings by approximately 120 buildings by December 31, 2009 from 1,326 buildings at December 31, 2008. We expect our 2009 capital expenditures to be greater than our 2008 capital expenditure rate due to the increase in our network expansion activities.

Historically, our operating expenses have exceeded our service revenue resulting in operating losses of $29.9 million, $22.2 million and $5.1 million in the years ended December 31, 2007 and 2008 and the nine months ended September 30, 2009, respectively. In each of these periods, our operating expenses consisted primarily of the following:

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

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

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

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

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 service revenues and cash flows. These key performance indicators include:

- service revenues, which are an indicator of our overall business growth and the success of our sales and marketing efforts;
- growth in our on-net customer base and revenues, which is an indicator of the success of our primarily on-net focused sales efforts;
- growth in our on-net buildings; and
- cash flows.

Three Months Ended September 30, 2008 Compared to the Three Months Ended September 30, 2009

The following summary table presents a comparison of our results of operations for the three months ended September 30, 2008 and 2009 with respect to certain key financial measures. The comparisons illustrated in the table are discussed in greater detail below.

	Three months ended September 30,		Percent Change
	2008	2009	
	(in thousands)		
Service revenue	$ 54,594	$ 60,229	10.3%
On-net revenue	44,243	48,050	8.6%
Off-net revenue	8,995	11,127	23.7%
Non-core revenue	1,356	1,052	(22.4)%
Network operations expenses (1)	24,059	26,375	9.6%
Selling, general, and administrative expenses (2)	16,403	16,847	2.7%
Equity-based compensation expense	4,023	1,267	(68.5)%
Depreciation and amortization expenses	15,494	15,282	(1.4)%
Gain on convertible debt purchase	3,245		(100.0)%

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(1) Excludes equity-based compensation expense of $80 and $25 for the three months ended September 30, 2008 and 2009, respectively, which, if included would have resulted in a period-to-period change of 9.4%.

(2) Excludes equity-based compensation expense of $3,943 and $1,242 for the three months ended September 30, 2008 and 2009, respectively, which, if included would have resulted in a period-to-period change of (11.1)%.

Service Revenue. Our service revenue increased 10.3% from $54.6 million for the three months ended September 30, 2008 to $60.2 million for the three months ended September 30, 2009. The impact of exchange rates resulted in a reduction of revenues for the three months ended September 30, 2009 of approximately $0.9 million. All foreign currency comparisons herein reflect third quarter 2009 results translated at the average foreign currency exchange rates for the third quarter of 2008. For the three months ended September 30, 2008 and 2009, on-net, off-net and non-core revenues represented 81.0%, 16.5% and 2.5% and 79.8%, 18.5% and 1.7% of our service revenues, respectively.

Revenues from our corporate and net centric customers represented 45.9% and 54.1% of our service revenue, respectively, for the three months ended September 30, 2008 and represented 47.2% and 52.8% of our service revenue, respectively, for the three months ended September 30, 2009. Revenues from corporate customers increased 13.3% from $25.1 million for the three months ended September 30, 2008 to $28.4 million for the three months ended September 30, 2009. Revenues from our net-centric customers increased 7.8% from $29.5 million for the three months ended September 30, 2008 to $31.8 million for the three months ended September 30, 2009. The difference in the increase percentages in net centric revenues as compared to the increase in corporate revenues is primarily attributed to a decline in the average revenue per net centric customer connection from discounting and from the impact of exchange rates (all of our European revenues are from net centric customers). In June 2008, we introduced additional volume and term based discounts to certain of our net centric customers in an effort to continue to gain market share and to continue to grow our revenues.

Our on-net revenues increased 8.6% from $44.2 million for the three months ended September 30, 2008 to $48.1 million for the three months ended September 30, 2009. Our on-net revenues increased as we increased the number of our on-net customer connections by 25.0% from approximately 13,300 at September 30, 2008 to approximately 16,600 at September 30, 2009. On-net customer connections increased at a greater rate than on-net revenues due to a decline in the average revenue per on-net customer connection primarily from our net centric customers. This decline is partly attributed to a shift in the customer connection mix and due to volume and term based pricing discounts. Due to the increase in the size of our sales force, we are now able to focus not only on customers who purchase high-bandwidth connections, as we have done historically, but also on customers who purchase lower-bandwidth connections. We expect to continue to focus our sales efforts on a broad mix of customers. Additionally, on-net customers who cancel their service from our installed base of customers, in general, have greater average revenue per connection than new customers. These trends and the impact of foreign exchange rates resulted in a reduction to our average revenue per on-net connection.

Our off-net revenues increased 23.7% from $9.0 million for the three months ended September 30, 2008 to $11.1 million for the three months ended September 30, 2009. Our off-net customer connections increase by 9.8% from approximately 3,000 at September 30, 2008 to approximately 3,300 at September 30, 2009. Off-net revenues increased at a greater rate than off-net customer connections due to an increase in the average revenue per off-net customer connection. Off-net customers who cancel their service, in general, have an average revenue per connection that is less than the average revenue per connection for new off-net customers who generally purchase higher-bandwidth connections.

Our non-core revenues decreased 22.4% from $1.4 million for the three months ended September 30, 2008 to $1.1 million for the three months ended September 30, 2009. The number of our non-core customer connections increased 63.6% from approximately 650 at September 30, 2008

to approximately 1,070 at September 30, 2009 due to the May 2009 acquisition of approximately 685 non-core customer connections. We do not actively market acquired non-core services and expect that the associated service revenue will continue to decline.

Network Operations Expenses. Our network operations expenses, excluding equity-based compensation expense, increased 9.6% from $24.1 million for the three months ended September 30, 2008 to $26.4 million for the three months ended September 30, 2009. The impact of exchange rates resulted in a reduction of network operations expenses for the three months ended September 30, 2009 of approximately $0.3 million. The increase in network operations expenses is primarily attributable to an increase in costs related to our network and facilities expansion activities and an increase in our off-net revenues.

Selling, General, and Administrative Expenses. Our SG&A expenses, excluding equity-based compensation expense, increased 2.7% from $16.4 million for the three months ended September 30, 2008 to $16.8 million for the three months ended September 30, 2009. The impact of exchange rates resulted in a reduction of SG&A expenses for the three months ended September 30, 2009 of approximately $0.3 million. SG&A expenses increased primarily from the increase in salaries and related costs required to support our expanding sales and marketing efforts.

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Equity-based Compensation Expense. Equity-based compensation expense results from grants of restricted stock and stock options. Equity-based compensation expense decreased 68.5% from $4.0 million for the three months ended September 30, 2008 to $1.3 million for the three months ending September 30, 2009 primarily due to the completion of the service period in April 2009 of certain restricted stock grants made in April 2007.

Depreciation and Amortization Expenses. Our depreciation and amortization expense decreased 1.4% from $15.5 million for the three months ended September 30, 2008 to $15.3 million for the three months ended September 30, 2009. The decrease is primarily due to the decline in depreciation expense from fully depreciated fixed assets more than offsetting depreciation expense associated with the increase in deployed fixed assets.

Purchases of Notes

In June 2007, we issued our 1.00% Convertible Senior Notes (the Notes) due June 15, 2027, for an aggregate principal amount of $200.0 million. In September, October and December 2008, we purchased an aggregate of $108.0 million of face value of the Notes for $48.6 million in cash in a series of transactions. These transactions resulted in gains totaling $23.1 million for the year ended December 31, 2008. The September 2008 purchase was for $20.0 million of face value of the Notes for $9.9 million in cash. This transaction resulted in a gain of $3.2 million for the three and nine months ended September 30, 2008.

Buildings On-net. As of September 30, 2008 and 2009, we had a total of 1,301 and 1,421 on-net buildings connected to our network, respectively.

Nine months Ended September 30, 2008 Compared to the Nine months Ended September 30, 2009

The following summary table presents a comparison of our results of operations for the nine months ended September 30, 2008 and 2009 with respect to certain key financial measures. The comparisons illustrated in the table are discussed in greater detail below.

	Nine months ended September 30,		Percent Change
	2008	2009	
	(in thousands)		
Service revenue	$ 160,564	$ 173,295	7.9%
On-net revenue	131,268	138,795	5.7%
Off-net revenue	25,448	31,556	24.0%
Non-core revenue	3,848	2,944	(23.5)%
Network operations expenses (1)	68,969	75,004	8.8%
Selling, general, and administrative expenses (2)	46,402	50,877	9.6%
Asset impairment	1,592		(100.0)%
Equity-based compensation expense	13,614	7,430	(45.4)%
Depreciation and amortization expenses	47,619	45,128	(5.2)%
Gain on convertible debt purchase	3,245		(100.0)%

(1) Excludes equity-based compensation expense of $248 and $149 in the nine months ended September 30, 2008 and 2009, respectively, which, if included would have resulted in a period-to-period change of 8.6%.

(2) Excludes equity-based compensation expense of $13,366 and $7,281 the nine months ended September 30, 2008 and 2009, respectively, which, if included would have resulted in a period-to-period change of (2.7)%.

Service Revenue. Our service revenue increased 7.9% from $160.6 million for the nine months ended September 30, 2008 to $173.3 million for the nine months ended September 30, 2009. The impact of exchange rates resulted in a reduction of revenues for the nine months ended September 30, 2009 of approximately $6.1 million. All foreign currency comparisons herein reflect results for the nine months ended September 30, 2009 translated at the average foreign currency exchange rates for the nine months ended September 30, 2008. For the nine months ended September 30, 2008 and 2009, on-net, off-net and non-core revenues represented 81.8%, 15.8% and 2.4% and 80.1%, 18.2% and 1.7% of our service revenues, respectively.

Revenues from our corporate and net centric customers represented 44.1% and 55.9% of our service revenue, respectively, for the nine months ended September 30, 2008 and represented 47.6% and 52.4% of our service revenue, respectively, for the nine months ended September 30, 2009. Revenues from corporate customers increased 16.5% from $70.9 million for the nine months ended September 30, 2008 to $82.5 million for the nine months ended September 30, 2009. Revenues from our net-centric customers increased 1.2% from $89.7 million for the nine months ended September 30, 2008 to $90.8 million for the nine months ended September 30, 2009. The difference in the increase percentages in net centric revenues as compared to the increase in corporate revenues is primarily due to a decline in the average revenue per

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net centric customer connection from discounting and due to the impact of exchange rates (all of our European revenues are from net centric customers). In June 2008, we introduced additional volume and term based discounts to certain of our net centric customers in an effort to continue to gain market share and to continue to grow our revenues.

Our on-net revenues increased 5.7% from $131.3 million for the nine months ended September 30, 2008 to $138.8 million for the nine months ended September 30, 2009. Our on-net revenues increased as we increased the number of our on-net customer connections by 25.0% from approximately 13,300 at September 30, 2008 to approximately 16,600 at September 30, 2009. On-net customer connections increased at a greater rate than on-net revenues due to a decline in the average revenue per on-net customer connection primarily from our net centric customers. This decline is partly attributed to a shift in the customer connection mix and due to volume and term based pricing discounts. Due to the increase in the size of our sales force, we are now able to focus not only on customers who purchase high-bandwidth connections, as we have done historically, but also on customers who purchase lower-bandwidth connections. We expect to continue to focus our sales efforts on a broad mix of customers. Additionally, on-net customers who cancel their service from our installed base of customers, in general, have a greater average revenue per connection than new customers. These trends and the impact of foreign exchange rates resulted in a reduction to our average revenue per on-net connection.

Our off-net revenues increased 24.0% from $25.4 million for the nine months ended September 30, 2008 to $31.6 million for the nine months ended September 30, 2009. Our off-net customer connections increased by 9.8% from approximately 3,000 at September 30, 2008 to approximately 3,300 at September 30, 2009. Off-net revenues increased at a greater rate than off-net customer connections due to an increase in the average revenue per off-net customer connection. Off-net customers who cancel their service, in general, have a lower average revenue per connection than new off-net customers who generally purchase higher-bandwidth connections.

Our non-core revenues decreased 23.5% from $3.8 million for the nine months ended September 30, 2008 to $2.9 million for the nine months ending September 30, 2009. The number of our non-core customer connections increased 63.6% from approximately 650 at September 30, 2008 to approximately 1,070 at September 30, 2009 due to the May 2009 acquisition of approximately 685 non-core customer connections. We do not actively market acquired non-core services and expect that the associated service revenue will continue to decline.

Network Operations Expenses. Our network operations expenses, excluding equity-based compensation expense, increased 8.8% from $69.0 million for the nine months ended September 30, 2008 to $75.0 million for the nine months ended September 30, 2009. The impact of exchange rates resulted in a reduction of network operations expenses for the nine months ended September 30, 2009 of approximately $2.2 million. The increase is primarily attributable to an increase in costs related to our network and facilities expansion activities and increase in our off-net revenues partly offset by the decline in network operations expenses associated with the decline in our non-core revenues and the impact of foreign exchange.

Selling, General, and Administrative Expenses. Our SG&A expenses, excluding equity-based compensation expense, increased 9.6% from $46.4 million for the nine months ended September 30, 2008 to $50.9 million for the nine months ended September 30, 2009. The impact of exchange rates resulted in a reduction of SG&A expenses for the nine months ended September 30, 2009 of approximately $1.9 million. SG&A expenses increased primarily from the increase in salaries and related costs required to support our expanding sales and marketing efforts partly offset by the impact of foreign exchange.

Equity-based Compensation Expense. Equity-based compensation expense results from grants of restricted stock and stock options. Equity-based compensation expense decreased 45.4% from $13.6 million for the nine months ended September 30, 2008 to $7.4 million for the nine months ending September 30, 2009. The decrease is primarily attributed to fully-vested share grants made to our board of directors in

January 2008 resulting in approximately $1.2 million of equity-based compensation expense in the nine months ended September 30, 2008. There were no such share grants in the nine months ended September 30, 2009. The decrease is also due to the completion of the service period in April 2009 of certain restricted stock grants made in April 2007.

Depreciation and Amortization Expenses. Our depreciation and amortization expense decreased 5.2% from $47.6 million for the nine months ended September 30, 2008 to $45.1 million for the nine months ended September 30, 2009. The decrease is primarily due to the decline in depreciation expense from fully depreciated fixed assets more than offsetting depreciation expense associated with the increase in deployed fixed assets.

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

Purchases of Notes

In June 2007, we issued our 1.00% Convertible Senior Notes (the Notes) due June 15, 2027, for an aggregate principal amount of $200.0 million. In September, October and December 2008, we purchased an aggregate of $108.0 million of face value of the Notes for $48.6 million in cash in a series of transactions. These transactions resulted in gains totaling $23.1 million for the year ended December 31, 2008. The September 2008 purchase was for $20.0 million of face value of the Notes for $9.9 million in cash. This transaction resulted in a gain of $3.2 million for the nine months ended September 30, 2008.

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Buildings On-net. As of September 30, 2008 and 2009, we had a total of 1,301 and 1,421 on-net buildings connected to our network, respectively.

Liquidity and Capital Resources

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

Cash Flows

The following table sets forth our consolidated cash flows for the nine months ended September 30, 2008 and nine months ended September 30, 2009.

(in thousands)	Nine months ended September 30, 2008	2009
Net cash provided by operating activities	$ 43,543	$ 40,598
Net cash used in investing activities	(27,566)	(41,887)
Net cash used in financing activities	(83,457)	(19,598)
Effect of exchange rates on cash	(491)	710
Net decrease in cash and cash equivalents during period	$ (67,971)	$ (20,177)

Net Cash Provided by Operating Activities. Our primary sources of operating cash are receipts from our customers who are billed on a monthly basis for our services. Our primary uses of operating cash are payments made to our vendors and employees. Net cash provided by operating activities was $43.5 million for the nine months ended September 30, 2008 compared to net cash provided by operating activities of $40.6 million for the nine months ended September 30, 2009. The changes in assets and liabilities were an increase of cash of $2.6 million for the nine months ended September 30, 2008 compared to an increase of cash of $0.7 million for the nine months ended September 30, 2009.

Net Cash Used In Investing Activities. Net cash used in investing activities was $27.6 million for the nine months ended September 30, 2008 and $41.9 million for the nine months ended September 30, 2009. Our primary use of investing cash for the nine months ended September 30, 2008 and nine months ended September 30, 2009 was $28.3 million and $41.8 million, respectively, for the purchases of property and equipment. The increase in purchases of property and equipment from the nine months ended September 30, 2008 to the nine months ended September 30, 2009 is primarily due to the increase in our network expansion activities. Our primary source of investing cash for the nine months ended September 30, 2008 was $0.6 million from the maturities of short-term investments.

Net Cash Used In Financing Activities. Net cash used in financing activities was $83.5 million for the nine months September 30, 2008. Net cash used in financing activities was $19.6 million for the nine months September 30, 2009. Our primary uses of financing cash for the nine months ended September 30, 2008 were $58.0 million for the purchases of shares of our common stock, $9.9 million for the purchase of $20.0

million face value of our 1.00% Convertible Senior Notes and $15.6 million of principal payments under our capital lease obligations. Our primary use of financing cash for the nine months ended September 30, 2009 was $19.2 million of principal payments under our capital lease obligations and $0.7 million for the purchases of shares of our common stock. The increase in principal payments under our capital lease obligations from the nine months ended September 30, 2008 to the nine months ended September 30, 2009 is primarily due to the increase in our network expansion activities including our expansion into Mexico.

Cash Position and Indebtedness

Our total indebtedness, net of discount, at September 30, 2009 was $175.1 million and our total cash and cash equivalents and short-term investments were $51.1 million. Our total indebtedness, net of discount, at September 30, 2009 includes $110.0 million of capital lease obligations for dark fiber primarily under 15-25 year IRUs, of which approximately $10.8 million is considered a current liability.

$150.0 Million Common Stock Repurchases

In June 2007 we used approximately $50.1 million of the net proceeds from our issuance of our $200.0 million Convertible Senior Notes to repurchase approximately 1.8 million shares of our common stock. These 1.8 million common shares were subsequently retired.

In August 2007, our board of directors approved a common stock buyback program (the Buyback Program). Under the Buyback Program we were authorized to purchase up to $50.0 million of our common stock prior to December 31, 2008. In June 2008, our board of directors approved an additional $50.0 million of purchases of our common stock to occur prior to December 31, 2009. In the nine months ended September 30, 2009, we purchased approximately 0.1 million shares of our common stock for approximately $0.7 million under the Buyback Program. These common shares were subsequently retired. There were no purchases in the three months ended September 30, 2009. As of September 30, 2009, there was approximately $30.1 million remaining under the Buyback Program.

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Convertible Senior Notes

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

In September, October and December 2008, we purchased an aggregate of $108.0 million of face value of the Notes for $48.6 million in cash in a series of transactions. These transactions resulted in a gain of $23.1 million for the year ended December 31, 2008. After these transactions, there is $92.0 million of face value of the Notes outstanding. We may purchase additional Notes.

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

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

Revolving line of credit

In October 2009, we entered into a $20.0 million revolving line of credit facility with a bank. Borrowings under the facility may be used for general corporate purposes, acquisitions, purchases of our common stock, and purchases of our convertible notes. The facility expires and all amounts must be repaid on October 14, 2010. Our ability to draw under the revolving facility is conditioned upon, among other things, (i) the size of our borrowing base, which is comprised of our accounts receivable in the United States and Canada and amounts we have on deposit with the bank; (ii) our ability to make the representations and warranties contained in the loan documents on the date of such borrowing; and (iii) the absence of any default or event of default under its loan documents. The revolving facility has a floating interest rate of one month LIBOR plus 2.5% per annum, subject to a minimum interest rate of 3%.

Our obligations under the revolving facility are secured by a lien on the accounts, general intangibles and certain of our other assets and our U.S. and Canadian operating subsidiaries. The revolving facility contains customary covenants, including, but not limited to, restrictions on us and our U.S. and Canadian operating subsidiaries ability to grant liens or security interests on assets subject to the banks security interest and pay dividends. The revolving facility requires the maintenance of a trailing four quarter ratio of our funded debt to adjusted EBITDA (as defined) of less than 3.0:1.0 and a ratio of our adjusted EBITDA (as defined) less dividends and capital expenditures to its debt constituting current maturities (excluding amounts due under this revolving credit facility) above 0.9:1 for the quarters ended September 30, 2009 and December 31, 2009 and 1.2:1.0 for the quarters thereafter.

Contractual Obligations and Commitments

For our contractual obligations and commitments see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations of our annual report on Form 10-K for the year ended December 31, 2008.

In June 2009, we entered into an amended equipment purchase agreement with a vendor. As of September 30, 2009, we are required, under this agreement and prior agreements to purchase equipment totaling approximately $26 million through 2011, which represents an increase in our contractual cash commitments.

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Future Capital Requirements

We believe that, if we execute our business plan, our cash on hand, cash generated from our operating activities and the availability under our line of credit facility will be adequate to meet our working capital, capital expenditure, debt service and other cash requirements including future potential purchases by us of our common stock or the Notes.

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

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Income taxes

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

Critical Accounting Policies and Significant Estimates

Management believes that, except as discussed below, as of September 30, 2009, there have been no material changes to our critical accounting policies and significant estimates from those listed in Item 7 Management s Discussion and Analysis of Financial Condition and Results of

Operations of our annual report on Form 10-K for the year ended December 31, 2008.

On January 1, 2009, we adopted Codification Subtopic 470-20, Debt, Debt with Conversion and Other Options (ASC 470-20). ASC 470-20 clarifies the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. ASC 470-20 requires issuers to account separately for the liability and equity components of certain convertible debt instruments in a manner that reflects the issuer s nonconvertible debt borrowing rate when interest cost is recognized. ASC 470-20 requires bifurcation of a component of the debt, classification of that component in equity and the amortization of the resulting discount on the debt to be recognized as part of interest expense in our consolidated statements of operations.

The adoption of ASC 470-20 affected the accounting for our 1.00% Convertible Senior Notes (the Notes). The retrospective application of this pronouncement affected the period from June 2007 (when the Notes were issued) through December 31, 2008 including the accounting for our purchases of Notes in September, October and December 2008. The adoption of ASC 470-20 required us to estimate the fair value of our Notes on the issuance date and on each purchase date. The fair value we assigned to the liability component of our Notes was determined using interest rates of similar debt that excluded a conversion feature and then applying that effective interest rate to the cash flows associated with the Notes to calculate the present value.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued FASB ASC 105, Generally Accepted Accounting Principles, which establishes the FASB Accounting Standards Codification (ASC) as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, we updated references to GAAP in our financial statements issued for the period ended September 30, 2009. The adoption of FASB ASC 105 did not impact our financial position or results of operations.

We have adopted the provisions of ASC 820 Fair Value Measurements and Disclosures (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The adoption of the various provisions of ASC 820 did not have a material effect on our consolidated financial position, results of operations or cash flows.

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We evaluate our freestanding financial instruments, or embedded features, under the provisions of ASC 815-40 Derivatives and Hedging Contracts in Entity s Own Equity (ASC 815-40) to determine if they are considered indexed to our stock. If the instrument or embedded feature is not eligible for equity classification it would be classified as an asset or liability and remeasured at fair value through earnings. We have determined that our embedded conversion features are considered indexed to our stock. As a result, the adoption of ASC 815-40, did not have a material impact on our consolidated financial position, results of operations, or cash flows.

We account for our acquisitions under the provisions of ASC 805 Business Combinations . ASC 805 establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree and recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase. ASC 805 also sets forth the disclosures required to be made in the financial statements to evaluate the nature and financial effects of the business combination. We have not entered into a material acquisitions since January 1, 2009, as a result there has been no material impact related to our adoption of ASC 805.

ASC 855 Subsequent Events establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. As of this date we have adopted the provisions of ASC 855 and we have evaluated subsequent events through the date of this filing November 9, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

For quantitative and qualitative disclosures about market risk see Item 7A Quantitative and Qualitative Disclosures About Market Risk, of our annual report on Form 10-K for the year ended December 31, 2008. Our exposures to market risk have not changed materially since December 31, 2008. Based upon the quoted market price at September 30, 2009, the fair value of our $92.0 million of 1.00% Convertible Senior Notes was approximately $61.9 million.

ITEM 4. CONTROLS AND PROCEDURES.

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

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

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are involved in legal proceedings in the normal course of our business that we do not expect to have a material impact on our operations or results of operations. Note 5 of our interim condensed consolidated financial statements includes information on these proceedings and other disputes.

ITEM 2. UNREGSITERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Purchases of Equity Securities

On August 14, 2007, we announced that our Board of Directors had authorized a plan to permit the repurchase of up to $50.0 million of our common stock in negotiated and open market transactions. In June 2008, we announced that our Board of Directors had authorized an additional repurchase of up to $50.0 million of our common stock in negotiated and open market transactions through December 31, 2009. As of September 30, 2009, we had purchased 4,948,485 shares of our common stock pursuant to these authorizations for an aggregate of $69.9 million; approximately $30.1 million remained available for such negotiated and open market transactions concerning our common

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stock. We may purchase shares and our convertible notes from time to time depending on market, economic, and other factors. The authorization will continue through December 31, 2009. We did not purchase any shares of our common stock during the third quarter of 2009.

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

None

ITEM 6. EXHIBITS.

(a) Exhibits

Exhibit Number	Description
10.1	Commercial Note and Agreement to Commercial Note and related Security Agreement, dated October 15, 2009, between Cogent Communications Group, Inc. and SunTrust Bank (filed herewith)
31.1	Certification of Chief Executive Officer (filed herewith)
31.2	Certification of Chief Financial Officer (filed herewith)
32.1	Certification of Chief Executive Officer (filed herewith)
32.2	Certification of Chief Financial Officer (filed herewith)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 9, 2009 **COGENT COMMUNICATIONS GROUP, INC.**

By: /s/ David Schaeffer
Name: David Schaeffer
Title: Chairman of the Board and Chief Executive Officer

Date: November 9, 2009 By: /s/ Thaddeus G. Weed
Name: Thaddeus G. Weed
Title: Chief Financial Officer (Principal Accounting Officer)

Exhibit Index

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