ISLE OF CAPRI CASINOS INC
Form 10-K
June 16, 2011

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended April 24, 2011

OR

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

For the transition period from to
Commission File Number 0-20538

ISLE OF CAPRI CASINOS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**41-1659606**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
600 Emerson Road, Suite 300, St. Louis, Missouri	**63141**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(314) 813-9200**

Securities Registered Pursuant to Section 12(b) of the Act:
Common Stock, $.01 Par Value Per Share
(Title of Class)

Securities Registered Pursuant to Section 12(g) of the Act:

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

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

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 ý 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 (§ 229.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o	Accelerated filer ý	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 ý

The aggregate market value of the voting and non-voting stock held by non-affiliates(1) of the Company is $131,766,870, based on the last reported sale price of $7.93 per share on October 25, 2010 on the NASDAQ Stock Market; multiplied by 16,616,251 shares of Common Stock outstanding and held by non-affiliates of the Company on such date.

(1) Affiliates for the purpose of this item refer to the directors, named executive officers and/or persons owning 10% or more of the Company's common stock, both of record and beneficially; however, this determination does not constitute an admission of affiliate status for any of the individual stockholders.

As of June 13, 2011, the Company had a total of 38,222,865 shares of Common Stock outstanding (which excludes 3,841,283 shares held by us in treasury).

Part III incorporates information by reference to the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year.

ISLE OF CAPRI CASINOS, INC.

FORM 10-K

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains statements that we believe are, or may be considered to be, "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this Annual Report regarding the prospects of our industry or our prospects, plans, financial position or business strategy, may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking words such as "may," "will," "expect," "intend," "estimate," "foresee," "project," "anticipate," "believe," "plans," "forecasts," "continue" or "could" or the negatives of these terms or variations of them or similar terms. Furthermore, such forward-looking statements may be included in various filings that we make with the SEC or press releases or oral statements made by or with the approval of one of our authorized executive officers. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that these expectations will prove to be correct. These forward-looking statements are subject to certain known and unknown risks and uncertainties, as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause actual results to differ include, but are not limited to, those discussed in the section entitled "Risk Factors" beginning on page 9 of this report. Readers are cautioned not to place undue reliance on any forward-looking statements contained herein, which reflect management's opinions only as of the date hereof. Except as required by law, we undertake no obligation to revise or publicly release the results of any revision to any forward-looking statements. You are advised, however, to consult any additional disclosures we make in our reports to the SEC. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this Annual Report.

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PART I

ITEM 1. BUSINESS

Overview

We are a leading developer, owner and operator of branded gaming facilities and related lodging and entertainment facilities in regional markets in the United States. We own and operate 15 gaming and entertainment facilities in Louisiana, Mississippi, Missouri, Iowa, Colorado and Florida. Collectively, these properties feature approximately 15,000 slot machines and over 370 table games (including approximately 110 poker tables) over 3,000 hotel rooms and more than 40 restaurants. We also operate a harness racing track at our casino in Florida. Our portfolio of properties provides us with a diverse geographic footprint that minimizes geographically concentrated risks caused by weather, regional economic difficulties, gaming tax rates and regulations imposed by local gaming authorities.

Strategic Plan Components

The Isle of Capri senior management team brings over 200 collective years of gaming industry experience spanning 20 states, six foreign jurisdictions and over 75 individual gaming properties. Since joining the company in 2007, this team developed and are executing a strategic operating plan that focuses on the financial discipline and core operating principles of the company in order to increase our customer's satisfaction with our product offerings while at the same time increasing stockholder value. Our business approach is anchored by the following strategic components:

Financial discipline.

We utilize a disciplined approach to evaluate financial decisions with the continuing goal to improve our capital structure and financial flexibility. We have reduced our outstanding debt from approximately $1.5 billion as of April 27, 2008 to approximately $1.2 billion as of April 24, 2011, a reduction of approximately $310 million. We achieved this reduction primarily through the use of cash obtained from the settlement of our Hurricane Katrina claim and cash flows from operations. We retired $142.7 million of our 7% senior subordinated notes for $82.8 million through a tender offer in February 2009 and prepaid $35.0 million of our term loans under our credit facility in March 2009.

On January 25, 2011, we continued to improve our capital structure by raising $51.2 million in net proceeds through the issuance of 5.3 million shares of our common stock. In March 2011, we issued $300 million in 7.75% senior notes and utilized the proceeds to repay borrowings under our credit facility. Also in March 2011, we entered into an amendment to our Credit Facility, which, among other things, extended the maturity of the revolving credit facility and term loan and increased flexibility in operations and capital spending. We continually seek opportunities to improve our capital structure.

Focusing on core operating principles that have proven successful.

Our operating focus is to deliver a superior guest experience by providing customers with the most popular gaming product in a clean, safe, friendly and fun environment. These areas have been shown through customer research to embody the attributes of a gaming entertainment experience most important to our customers in choosing which casino to visit. We emphasize, among other things, customer courtesy and we have implemented a proprietary program to measure our progress against standards for certain courteous behaviors. In addition, many of our capital and operating plans are intended to improve on guest satisfaction, including quality, accessibility and cleanliness of areas frequented by our customers, such as hotel rooms and other public areas in our hotels and casino floors. We also have implemented employee incentive programs designed to encourage employees to deliver superior customer service and courtesy.

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Driving value through product offerings and branding.

Our current branding strategy includes two separate brand names: Isle and Lady Luck (which we re-launched in fiscal 2009). Through comprehensive market studies and customer feedback, we have found that our brands convey excitement, entertainment, consistent high-quality service and value to our customers.

We use the Isle brand primarily at properties that have a regional draw. These are generally casinos in larger markets where we have expansion potential demonstrated by either the size of the market or excess land that we control. The Isle-branded properties typically offer expanded amenities, such as hotel rooms, expanded food and beverage offerings and conference and convention capabilities.

We use the Lady Luck brand for properties that predominantly draw local customers, which are typically in smaller markets with less expansion potential. The goal of the Lady Luck brand is to offer a first-class gaming experience and high quality entertainment options, featuring casual dining and popular local entertainment in a comfortable setting.

We have completed the refurbishment and rebranding of three of our existing Isle properties under the Lady Luck brand: Marquette, Iowa in September 2009, Colorado Central Station in Black Hawk, Colorado in June 2009 and Caruthersville, Missouri in December 2008. Assuming economic conditions improve and capital availability is enhanced, we intend to rebrand additional properties under the Lady Luck name during the next few years. Our current expectations are that Natchez, Lula and Vicksburg, Mississippi; Lake Charles, Louisiana; Boonville, and Kansas City, Missouri will eventually be rebranded as Lady Luck casinos.

We offer all customers membership in our customer loyalty program, which rewards customers with points and complimentary benefits that can be redeemed at any of our properties by using a players' club card. As a result, we have developed an extensive proprietary database that allows us to create effective targeted marketing and promotional programs, merchandise giveaways, gaming tournaments and other special events. As of April 24, 2011, our database contained approximately 1.3 million members, of whom approximately 0.5 million receive regular communications from us. We believe we effectively use our database to encourage repeat visits and increase our customers' length of stay at our properties.

Aggressively pursuing prudent growth opportunities.

On December 1, 2010, the Missouri Gaming Commission selected our proposed casino project in Cape Girardeau (the "Cape Girardeau Project") for prioritization for the thirteenth and final gaming license in the State of Missouri. We intend to brand this casino as an Isle property, which we expect to include approximately 1,000 slot machines, 28 table games, three restaurants, a lounge and terrace overlooking the Mississippi River and a 750-seat event center at an estimated cost of $125 million. We anticipate construction to begin in summer 2011 and casino operations to begin in the fourth calendar quarter of 2012.

We also continue to seek to expand our operations through acquisitions, such as our acquisition of the Rainbow Casino located in Vicksburg, Mississippi in June 2010 for approximately $76 million. Vicksburg is located approximately one mile south of Interstate 20, the main road connecting Jackson, Mississippi to Vicksburg. The casino features 762 slot machines, 6 table games, a 224-seat Riverview Buffet, a 26-seat Crossroads Deli and 977 parking spots.

Additionally, we formed Isle Gaming Management, a management and consulting division of the Company, in 2009 to leverage our experienced and respected management team and intellectual property by managing and operating casinos owned by third parties in exchange for management and other fees. The goal of Isle Gaming Management is to allow us to manage additional casino properties without requiring extensive capital investment. On April 14, 2011, the Nemacolin Woodlands Resort

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("Nemacolin") in Farmington, Pennsylvania was selected by the Pennsylvania Gaming Control Board for the final Category 3 resort gaming license. We had previously entered into an agreement with Nemacolin to complete the build-out of the casino space and provide management services for the casino. The casino is expected to include 600 slot machines, 28 table games, a casual dining restaurant and lounge. We will pay an annual fee to the resort owner and in return will receive a management fee equal to the EBITDA of the casino after payment of the fee to Nemacolin. We currently estimate the project cost at approximately $50 million and expect to be complete within nine months of the commencement of construction. The award of the license to Nemacolin is subject to a 30-day appeal period, which ends on June 20, 2011, and the obtainment of a management license.

Finally, in September 2010, we were awarded a gaming license by Nevada's Gaming Control Board, expanding the universe of opportunities that we can ultimately pursue.

Casino Properties

The following is an overview of our existing casino properties as of April 24, 2011:

Property	**Date Acquired or Opened**	**Slot Machines**	**Table Games**	**Hotel Rooms**	**Parking Spaces**
Louisiana					
Lake Charles	July 1995	1,806	78	493	2,335
Mississippi					
Lula	March 2000	1,177	12	484	1,611
Biloxi	August 1992	1,219	36	709	1,339
Natchez	March 2000	617	10	141	645
Vicksburg	June 2010	762	6		977
Missouri					
Kansas City	June 2000	1,161	22		1,731
Boonville	December 2001	991	19	140	1,101
Caruthersville	June 2007	595	16		1,000
Iowa					
Bettendorf	March 2000	1,022	28	514	2,057
Rhythm City Davenport	October 2000	949	15		911
Marquette	March 2000	600	11		475
Waterloo	June 2007	1,040	32	195	1,500
Colorado					
Isle Casino Hotel-Black Hawk	December 1998	1,036	35	238	1,100
Lady Luck Casino-Black Hawk	April 2003	524	17	164	1,200
Florida					
Pompano Park	July 1995/April 2007	1,448	38		3,800
		14,947	375	3,078	21,782

Louisiana

Lake Charles

Our Lake Charles property, which commenced operations in July 1995, is located on a 19-acre site along Interstate 10, the main thoroughfare connecting Houston, Texas to Lake Charles, Louisiana. The property consists of two dockside casinos offering 1,806 slot machines, 50 table games, 28 poker tables, two hotels offering 493 rooms, a 105,000 square foot land-based pavilion and entertainment center, and

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2,335 parking spaces, including approximately 1,400 spaces in an attached parking garage. The pavilion and entertainment center offer customers a wide variety of non-gaming amenities, including a 109-seat Otis & Henry's restaurant, a 290-seat Calypso's buffet, a 70-seat Lucky Wins Asian-inspired restaurant, which also includes a grab and go deli, and Caribbean Cove featuring free live entertainment and can accommodate 180 guests. The pavilion also has a 14,750 square foot entertainment center comprised of a 1,100-seat special events center designed for concerts, live boxing, televised pay-per-view events, banquets and other events, meeting facilities and administrative offices. On June 13, 2011, we granted an option agreement to a third party which could result in the sale of certain assets used at our Lake Charles, Louisiana property. The option agreement expires on November 30, 2011 and is subject to a number of conditions. The transaction is also subject to regulatory and other approvals, and passage of a local referendum to relocate the vessel to a different market. If the option is exercised and the transaction closes, we would continue to operate our Lake Charles hotel and land-based operations and consolidate our gaming operations onto one gaming vessel.

The Lake Charles market currently consists of two dockside gaming facilities, a Native American casino and a pari-mutuel facility/racino. The current number of slot machines in the market exceeds 7,900 machines and table games exceed 125 tables. In calendar year 2010, the two gaming facilities and one racino, in the aggregate, generated gaming revenues of approximately $638 million. Revenues for the Native American property are not published. Gaming revenues for our Lake Charles property for calendar year 2010 were approximately $138 million. Lake Charles is the closest gaming market to the Houston metropolitan area, which has a population of approximately 5.5 million and is located approximately 140 miles west of Lake Charles. We believe that our Lake Charles property attracts customers primarily from southeast Texas, including Houston, Beaumont, Galveston, Orange and Port Arthur and from local area residents. Approximately 500,000 and 1.6 million people reside within 50 and 100 miles, respectively, of the Lake Charles property.

Mississippi

Lula

Our Lula property, which we acquired in March 2000, is strategically located off of Highway 49, the only road crossing the Mississippi River between Mississippi and Arkansas for more than 50 miles in either direction. The property consists of two dockside casinos containing 1,177 slot machines and 12 table games, two on-site hotels with a total of 484 rooms, a land-based pavilion and entertainment center, 1,611 parking spaces, and a 28-space RV Park. The pavilion and entertainment center offer a wide variety of non-gaming amenities, including a 131-seat Farraddays' restaurant, a 328-seat Calypso's buffet and a 46-seat Tradewinds Marketplace, and a gift shop.

Our Lula property is the only gaming facility in Coahoma County, Mississippi and generated gaming revenues of approximately $66 million in calendar year 2010. Lula draws a significant amount of business from the Little Rock, Arkansas metropolitan area, which has a population of approximately 675,000 and is located approximately 120 miles west of the property. Coahoma County is also located approximately 60 miles southwest of Memphis, Tennessee, which is primarily served by nine casinos in Tunica County, Mississippi. Approximately 1.1 million people reside within 60 miles of the property. Lula also competes with Native American casinos in Oklahoma and a racino in West Memphis, Arkansas.

Biloxi

Our Biloxi property, which commenced operations in August 1992, is located on a 17-acre site at the eastern end of a cluster of facilities formerly known as "Casino Row" in Biloxi, Mississippi, and is the first property reached by visitors coming from Alabama, Florida and Georgia via Highway 90.

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In October 2005, the Mississippi legislature amended its gaming laws to allow casinos to operate land-based facilities within 800 feet of the mean high water line. Our Biloxi property is now a land-based casino offering approximately 1,200 slot machines, 27 table games, a nine-table poker room, a 709-room hotel including 200 whirlpool suites, a 120-seat banquet room called "Paradise Room," 138-seat Farraddays' restaurant, a 200-seat Calypso's buffet, a 128-seat Café at the Point restaurant, a 94-seat Tradewinds marketplace, a multi-story feature bar, a full service Starbucks and over 1,300 parking spaces.

The Mississippi Gulf Coast market (which includes Biloxi, Gulfport and Bay St. Louis) consists of 11 dockside gaming facilities, which in the aggregate, generated gaming revenues of approximately $1.1 billion during calendar year 2010. Our Biloxi property generated gaming revenues of approximately $69 million during calendar year 2010. Approximately one million people reside within 60 miles of the property.

Natchez

Our Natchez property, which we acquired in March 2000, is located off of Highways 84 and 61 in western Mississippi. The property consists of a dockside casino offering 617 slot machines and 10 table games, a 141-room off-site hotel located approximately one mile from the casino, a 150-seat Calypso's buffet and 645 parking spaces.

Our Natchez property is currently the only gaming facility in the Natchez market and generated total gaming revenues of approximately $33 million in calendar year 2010. We believe that the Natchez property attracts customers primarily from among the approximately 350,000 people residing within 60 miles of the Natchez property.

Vicksburg

Our Vicksburg property, which we acquired in June 2010, is located off Interstate 20 and Highway 61 in western Mississippi, approximately 50 miles west of Jackson, Mississippi. The property consists of a dockside casino offering 762 slot machines and six table games, a 224-seat Riverview Buffet, a 26-seat Crossroads Deli and 977 parking spaces.

The Vicksburg market consists of five dockside casinos and approximately 700,000 people reside within 60 miles of the property.

Missouri

Kansas City

Our Kansas City property, which we acquired in June 2000, is the closest gaming facility to downtown Kansas City and consists of a dockside casino offering 1,161 slot machines and 22 table games, a 285-seat Calypso's buffet, a 80-seat Lone Wolf restaurant, a 58-seat Tradewinds Marketplace and 1,731 parking spaces.

The Kansas City market consists of four dockside gaming facilities and a Native American casino. Operating statistics for the Native American casino are not published. The four dockside gaming facilities generated gaming revenues of approximately $714 million in calendar year 2010. Our Kansas City property generated gaming revenues of approximately $82 million during calendar year 2010. We believe that our Kansas City casino attracts customers primarily from the Kansas City metropolitan area, which has approximately 1.9 million residents

A competitor is currently constructing a $411 million casino at the Kansas Speedway located in Wyandotte County, Kansas. This casino is located approximately 20 miles from our Kansas City property and is expected to open in the first half of 2012.

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Boonville

Our Boonville property, which opened in December 2001, is located three miles off Interstate 70, approximately halfway between Kansas City and St. Louis. The property consists of a single level dockside casino offering 989 slot machines, 19 table games, a 140-room hotel, a 32,400 square foot pavilion and entertainment center and 1,101 parking spaces. The pavilion and entertainment center offers customers a wide variety of non-gaming amenities, including an 83-seat Farraddays' restaurant, a 218-seat Calypso's buffet, a 24-seat Tradewinds Marketplace, an 800 seat event center, and an historic display area. Our Boonville property is the only gaming facility in central Missouri and generated gaming revenues of approximately $81 million in calendar year 2010. We believe that our Boonville casino attracts customers primarily from the approximately 580,000 people who reside within 60 miles of the property which includes the Columbia and Jefferson City areas.

Caruthersville

Our Caruthersville property was acquired in June 2007 and is a riverboat casino located along the Mississippi River in Southeast Missouri. In June 2008, the casino was re-branded as a Lady Luck casino with the construction and refurbishment completed in December 2008. The dockside casino offers 595 slot machines, 11 table games and 5 poker tables. As part of the re-branding, we renovated our 40,000 square foot pavilion, which includes a 130-seat Lone Wolf restaurant, bar and lounge and a 270-seat Otis & Henry's restaurant. Renovations to the riverboat, including the casino floor, were completed in the summer of 2009. The property also operates a 10,000 square foot exposition center with seating for up to 1,100 patrons and has 1,000 parking spaces. Our Caruthersville facility is the only casino located in Southeast Missouri and generated gaming revenues of approximately $34 million in calendar year 2010. Approximately 650,000 people reside within 60 miles of the property.

Iowa

Bettendorf

Our Bettendorf property, which we acquired in March 2000, is located off of Interstate 74, an interstate highway serving the Quad Cities metropolitan area, which consists of Bettendorf and Davenport, Iowa and Moline and Rock Island, Illinois. The property consists of a dockside casino offering 1,022 slot machines, 24 table games, 4 poker tables, 514 hotel rooms, 40,000 square feet of flexible convention/banquet space, a 120-seat Farraddays' restaurant, a 272-seat Calypso's buffet, a 42-seat Tradewinds Marketplace and 2,057 parking spaces. We have entered into agreements with the City of Bettendorf, Iowa under which we manage and provide financial and operating support for the QC Waterfront Convention Center that is adjacent to our hotel. The QC Waterfront Convention Center opened in January 2009.

Davenport

Our Davenport property, which we acquired in October 2000, is located at the intersection of River Drive and Highway 61, a state highway serving the Quad Cities metropolitan area. The property consists of a dockside gaming facility offering 949 slot machines, 16 table games, a 209-seat Hit Parade buffet, a Grab-n-Go food outlet and 911 parking spaces.

The Quad Cities metropolitan area currently has three gaming operations our two gaming facilities in Bettendorf and in Davenport, and one operator, which opened a larger land-based facility, including a hotel, in December 2008. The three operations in the Quad Cities generated total gaming revenues of approximately $210 million in calendar year 2010. Our Bettendorf and Davenport properties generated casino revenues for calendar year 2010 of approximately $78 million and $53 million, respectively. Our operations in the Quad Cities also compete with other gaming operations

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in Illinois and Iowa. Approximately 923,000 people reside within 60 miles of our Bettendorf and Davenport properties.

Marquette

Our Marquette property, which we acquired in March 2000, is located in Marquette, Iowa, approximately 60 miles north of Dubuque, Iowa. The property consists of a dockside casino offering 600 slot machines and 11 table games, a marina and 475 parking spaces. During fiscal 2010, we completed the rebranding of the property as a Lady Luck casino. The facility now includes a newly themed 142-seat buffet restaurant, an Otis and Henry's Express food outlet and a Lone Wolf restaurant and bar.

Our Marquette property is the only gaming facility in the Marquette, Iowa market and generated gaming revenues of approximately $29 million in calendar year 2010. We believe most of our Marquette customers are from northeast Iowa and Wisconsin, which includes approximately 490,000 people within 60 miles of our property, and we compete for those customers with other gaming facilities in Dubuque, Iowa and Native American casinos in southwestern Wisconsin.

Waterloo

Our Waterloo property, which opened on June 30, 2007, is located adjacent to Highway 218 and US 20 in Waterloo, Iowa. The property consists of a single-level casino offering 1,040 slot machines, 27 table games and 5 poker tables. The property also offers a wide variety of non-gaming amenities, including a 123-seat Otis & Henry's restaurant, a 208-seat Isle buffet, a 44-seat Tradewinds marketplace, Club Capri Lounge, Fling feature bar, 5,000 square feet of meeting space, 1,500 parking spaces and a 195-room hotel, which includes 27 suites, as well as an indoor pool and hot tub area.

Our Waterloo property is the only gaming facility in the Waterloo, Iowa market and approximately 640,000 people live within 60 miles of the property. We compete with other casinos in eastern Iowa. We generated gaming revenues of approximately $80 million in calendar year 2010.

Colorado

Isle Casino Hotel-Black Hawk

Isle Casino Hotel-Black Hawk commenced operations in December 1998, is located on an approximately 10-acre site and is one of the first gaming facilities reached by customers arriving from Denver via Highway 119, the main thoroughfare connecting Denver to Black Hawk. The property includes a land-based casino with 1,036 slot machines, 24 standard table games, an 11 table poker room, a 238-room hotel and 1,100 parking spaces in an attached parking garage. Isle Casino Hotel-Black Hawk also offers customers three restaurants, including a 128-seat Farraddays' restaurant, a 270-seat Calypso's buffet and a 40-seat Tradewinds Marketplace.

Lady Luck Casino-Black Hawk

Lady Luck Casino-Black Hawk, which we acquired in April 2003 and rebranded in June 2009, is located across the intersection of Main Street and Mill Street from the Isle Casino Hotel-Black Hawk. The property consists of a land-based casino with 524 slot machines, 11 standard table games, 6 poker tables, a 164-room hotel that opened in December 2005 and 1,200 parking spaces in our parking structure connecting Isle Casino Hotel-Black Hawk and Lady Luck Casino-Black Hawk. The property also offers guests dining in its newly renovated and rebranded 79-seat Otis & Henry's restaurant as well as a grab-and-go fast serve food cart that is located in the main level of the facility. The property has also recently converted approximately 2,250 square feet of space to flex space that can be used for meetings and special events. Our Black Hawk sites are connected via sky bridges.

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When casinos having multiple gaming licenses in the same building are combined, the Black Hawk/Central City market consists of 24 gaming facilities (seven of which have more than 600 slot machines), which in aggregate, generated gaming revenues of approximately $625 million in calendar year 2010. Our Black Hawk properties generated casino revenues for calendar year 2010 of approximately $123 million. Black Hawk is the closest gaming market to the Denver, Colorado metropolitan area, which has a population of approximately 2.9 million and is located approximately 40 miles east of Black Hawk and serves as the primary feeder market for Black Hawk.

Florida

Pompano

In 1995, we acquired Pompano Park, a harness racing track located in Pompano Beach, Florida. Pompano Park is located off of Interstate 95 and the Florida Turnpike on a 223-acre owned site, near Fort Lauderdale, midway between Miami and West Palm Beach. Pompano Park is the only racetrack licensed to conduct harness racing in Florida.

Our Pompano facility includes 1,448 slot machines, a 38-table poker room, four restaurants, a feature bar and 3,800 parking spaces.

Approximately 2.6 million people reside within a 25-mile radius of our Pompano facility, which competes with four other racinos and three Native American gaming facilities in the market. While casino revenues are not available for all market competitors, we estimate that we operate approximately 14% of the slot machines in the market and generated approximately $130 million in casino revenues for calendar year 2010.

Recent Changes to Florida Gaming Laws In April 2010, changes were made to Florida law which, among other things, lowered our state gaming tax rate from 50% to 35% effective July 1, 2010. This legislation also allows the poker operations to remain open for the same hours as the slot floor and removes the poker betting limits. The changes to Florida law were combined with the approval of a gaming compact between the State of Florida and the Seminole Tribe of Florida. This gaming compact allows the tribe the exclusive right outside of Miami-Dade and Broward counties to operate slot machines and other similar electronic gaming devices and the right to operate live blackjack and baccarat table games for a period of five years at certain tribal gaming locations.

International Operations

Lucaya We operated a casino in Grand Bahama from December 2003 through November 2009, when we exited the operation.

Blue Chip We operated casinos in Dudley and Wolverhampton, England. These casinos opened during fiscal 2004 and were operated by us until they were sold in November 2009.

Coventry We operated a casino in the Coventry Convention Center from July 2007 through April 2009, when we terminated our lease and sold the casino and related assets.

Marketing

Our marketing programs are designed to promote our overall business strategy of providing customers with a safe, clean, friendly and fun gaming experience at each of our properties. We have developed an extensive proprietary database of customers that allows us to create effective targeted marketing and promotional programs that are designed to reward customer loyalty, attract new customers to our properties and maintain high recognition of our brands.

Specifically, our marketing programs and initiatives are tailored to support this corporate strategic plan and are generally focused on the following areas:

Customer Research: Our marketing strategies have been developed and implemented to meet the needs and desires of our casino customers in each of our locations. In order to assess these needs and desires, we engage in significant customer research in each of our markets by conducting periodic surveys. Upon receipt of these surveys, we assess the attitudes of our customers and the customers of our competitors' properties towards the most important attributes of their experience in a regional and/or local gaming facility. We use the extensive information gathered from these research initiatives to make marketing, operating and development decisions that, we believe, will optimize the position of our properties relative to our competition.

Branding Initiatives: Our strategic plan is designed to consolidate our property portfolio from four brands into two brands as the economy improves and we undertake significant new capital improvement programs. To date, we have begun this initiative through the re-branding of our properties in Caruthersville, Missouri, Marquette, Iowa, and the conversion of Colorado Central Station in Black Hawk, Colorado to Lady Luck-Black Hawk. As a component of these re-branding programs, we have also implemented newly-branded customer outlets, including custom restaurants and lounges that we are expanding through our portfolio to other properties. We believe, over time, this approach will allow us to more effectively align and promote our properties based upon customer needs and desires and market our properties on a consolidated basis. Furthermore, we expect our approach will streamline the costs associated with marketing our portfolio.

Database Marketing: We have streamlined our database marketing initiatives across the Company in order to focus our marketing efforts on profitable customers who have demonstrated a willingness to regularly visit our properties. Specifically, we have focused on eliminating from our database customers who have historically been included in significant marketing efforts but have proven costly either as a result of excessive marketing expenditures on the part of the Company, or because these customers have become relatively dormant in terms of customer activity.

Segmentation: We have compiled an extensive database of customer information over time. Among our most important marketing initiatives, we have introduced database segmentation to our properties and at the corporate level in order to adjust investment rates to a level at which we expect to meet a reasonable level of customer profit contribution.

Retail Development: We believe that we must more effectively attract new, non-database customers to our properties in order to increase profitability and free cash flow. These customers are generally less expensive to attract and retain and, therefore, currently represent a significant opportunity for our operations.

Employees

As of April 24, 2011, we employed approximately 8,600 full and part-time people. We have a collective bargaining agreement with UNITE HERE covering approximately 400 employees at our Pompano property which expires in May 2012. We believe that our relationship with our employees is satisfactory.

Governmental Regulations

The gaming and racing industries are highly regulated, and we must maintain our licenses and pay gaming taxes to continue our operations. Each of our facilities is subject to extensive regulation under the laws, rules and regulations of the jurisdiction where it is located. These laws, rules and regulations generally relate to the responsibility, financial stability and character of the owners, managers and persons with financial interests in the gaming operations. Violations of laws in one jurisdiction could result in disciplinary action in other jurisdictions. A more detailed description of the regulations to which we are subject is contained in Exhibit 99.1 to this Annual Report on Form 10-K.

Our businesses are subject to various federal, state and local laws and regulations in addition to gaming regulations. These laws and regulations include, but are not limited to, restrictions and conditions concerning alcoholic beverages, food service, smoking, environmental matters, employees and employment practices, currency transactions, taxation, zoning and building codes, and marketing and advertising. Such laws and regulations could change or could be interpreted differently in the future, or new laws and regulations could be enacted. Material changes, new laws or regulations, or material differences in interpretations by courts or governmental authorities could adversely affect our operating results.

Available Information

For more information about us, visit our web site at www.isleofcapricasinos.com. Our electronic filings with the U.S. Securities and Exchange Commission (including all annual reports on Form 10-K, quarter reports on Form 10-Q, and current reports on Form 8-K, and any amendments to these reports), including the exhibits, are available free of charge through our web site as soon as reasonably practicable after we electronically file them with or furnish them to the U.S. Securities and Exchange Commission.

ITEM 1A. RISK FACTORS

We face significant competition from other gaming operations, including Native American gaming facilities, that could have a material adverse effect on our future operations.

The gaming industry is intensely competitive, and we face a high degree of competition in the markets in which we operate. We have numerous competitors, including land-based casinos, dockside casinos, riverboat casinos, casinos located on racing, pari-mutuel operations or Native American-owned lands and video lottery and poker machines not located in casinos. Some of our competitors may have better name recognition, marketing and financial resources than we do; competitors with more financial resources may therefore be able to improve the quality of, or expand, their gaming facilities in a way that we may be unable to match.

Legalized gaming is currently permitted in various forms throughout the United States. Certain states have recently legalized, and other states are currently considering legalizing gaming. Our existing gaming facilities compete directly with other gaming properties in the states in which we operate. Our existing casinos attract a significant number of their customers from Houston, Texas; Mobile, Alabama; Kansas City, Kansas; Southern Florida; Little Rock, Arkansas; and Denver, Colorado. Legalization of gaming in jurisdictions closer to these geographic markets other than the jurisdictions in which our facilities are located would have a material adverse effect on our operating results. Other jurisdictions, including states in close proximity to jurisdictions where we currently have operations, have considered and may consider legalizing casino gaming and other forms of competition. In addition, there is no limit on the number of gaming licenses that may be granted in several of the markets in which we operate. As a result, new gaming licenses could be awarded in these markets, which could allow new gaming operators to enter our markets that could have an adverse effect on our operating results. On February 17, 2011, a project was awarded a gaming license in Lake Charles, Louisiana which, if completed, will compete with our existing Lake Charles property.

Our continued success depends upon drawing customers from each of these geographic markets. We expect competition to increase as new gaming operators enter our markets, existing competitors expand their operations, gaming activities expand in existing jurisdictions and gaming is legalized in new jurisdictions. We cannot predict with any certainty the effects of existing and future competition on our operating results.

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We also compete with other forms of legalized gaming and entertainment such as online computer gambling, bingo, pull tab games, card parlors, sports books, "cruise-to-nowhere" operations, pari-mutuel or telephonic betting on horse racing and dog racing, state-sponsored lotteries, jai-alai, and, in the future, may compete with gaming at other venues. In addition, we compete more generally with other forms of entertainment for the discretionary spending of our customers.

We are subject to extensive regulation from gaming and other regulatory authorities that could adversely affect us.

Licensing requirements. As owners and operators of gaming and pari-mutuel wagering facilities, we are subject to extensive state and local regulation. State and local authorities require us and our subsidiaries to demonstrate suitability to obtain and retain various licenses and require that we have registrations, permits and approvals to conduct gaming operations. The regulatory authorities in the jurisdictions in which we operate have very broad discretion with regard to their regulation of gaming operators, and may for a broad variety of reasons and in accordance with applicable laws, rules and regulations, limit, condition, suspend, fail to renew or revoke a license to conduct gaming operations or prevent us from owning the securities of any of our gaming subsidiaries, or prevent other persons from owning an interest in us or doing business with us. We may also be deemed responsible for the acts and conduct of our employees. Substantial fines or forfeiture of assets for violations of gaming laws or regulations may be levied against us, our subsidiaries and the persons involved, and some regulatory authorities have the ability to require us to suspend our operations. The suspension or revocation of any of our licenses or our operations or the levy on us or our subsidiaries of a substantial fine would have a material adverse effect on our business.

To date, we have demonstrated suitability to obtain and have obtained all governmental licenses, registrations, permits and approvals necessary for us to operate our existing gaming facilities. We cannot assure you that we will be able to retain these licenses, registrations, permits and approvals or that we will be able to obtain any new ones in order to expand our business, or that our attempts to do so will be timely. Like all gaming operators in the jurisdictions in which we operate, we must periodically apply to renew our gaming licenses and have the suitability of certain of our directors, officers and employees approved. We cannot assure you that we will be able to obtain such renewals or approvals.

In addition, regulatory authorities in certain jurisdictions must approve, in advance, any restrictions on transfers of, agreements not to encumber or pledges of equity securities issued by a corporation that is registered as an intermediary company with such state, or that holds a gaming license. If these restrictions are not approved in advance, they will be invalid.

Compliance with other laws. We are also subject to a variety of other federal, state and local laws, rules, regulations and ordinances that apply to non-gaming businesses, including zoning, environmental, construction and land-use laws and regulations governing the serving of alcoholic beverages. Under various federal, state and local laws and regulations, an owner or operator of real property may be held liable for the costs of removal or remediation of certain hazardous or toxic substances or wastes located on its property, regardless of whether or not the present owner or operator knows of, or is responsible for, the presence of such substances or wastes. We have not identified any issues associated with our properties that could reasonably be expected to have an adverse effect on us or the results of our operations. However, several of our properties are located in industrial areas or were used for industrial purposes for many years. As a consequence, it is possible that historical or neighboring activities have affected one or more of our properties and that, as a result, environmental issues could arise in the future, the precise nature of which we cannot now predict. The coverage and attendant compliance costs associated with these laws, regulations and ordinances may result in future additional costs.

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Regulations adopted by the Financial Crimes Enforcement Network of the U.S. Treasury Department require us to report currency transactions in excess of $10,000 occurring within a gaming day, including identification of the patron by name and social security number. U.S. Treasury Department regulations also require us to report certain suspicious activity, including any transaction that exceeds $5,000 if we know, suspect or have reason to believe that the transaction involves funds from illegal activity or is designed to evade federal regulations or reporting requirements. Substantial penalties can be imposed against us if we fail to comply with these regulations.

Several of our riverboats must comply with U.S. Coast Guard requirements as to boat design, on-board facilities, equipment, personnel and safety and must hold U.S. Coast Guard Certificates of Documentation and Inspection. The U.S. Coast Guard requirements also set limits on the operation of the riverboats and mandate licensing of certain personnel involved with the operation of the riverboats. Loss of a riverboat's Certificate of Documentation and Inspection could preclude its use as a riverboat casino. The U.S. Coast Guard has shifted inspection duties related to permanently moored casino vessels to the individual states. Louisiana and Missouri have elected to utilize the services of the American Bureau of Shipping to undertake the inspections. Iowa has elected to handle the inspections through the Iowa Department of Natural Resources. The states will continue the same inspection criteria as the U.S. Coast Guard in regard to annual and five year inspections. Depending on the outcome of these inspections a vessel could become subject to dry-docking for inspection of its hull, which could result in a temporary loss of service.

We are required to have third parties periodically inspect and certify all of our casino barges for stability and single compartment flooding integrity. Our casino barges and other facilities must also meet local fire safety standards. We would incur additional costs if any of our gaming facilities were not in compliance with one or more of these regulations.

Potential changes in legislation and regulation of our operations. From time to time, legislators and special interest groups have proposed legislation that would expand, restrict or prevent gaming operations in the jurisdictions in which we operate. In addition, from time to time, certain anti-gaming groups have challenged constitutional amendments or legislation that would limit our ability to continue to operate in those jurisdictions in which these constitutional amendments or legislation have been adopted.

Taxation and fees. State and local authorities raise a significant amount of revenue through taxes and fees on gaming activities. We believe that the prospect of significant revenue is one of the primary reasons that jurisdictions permit legalized gaming. As a result, gaming companies are typically subject to significant taxes and fees in addition to normal federal, state, local and provincial income taxes, and such taxes and fees are subject to increase at any time. We pay substantial taxes and fees with respect to our operations. From time to time, federal, state, local and provincial legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. Any material increase, or the adoption of additional taxes or fees, could have a material adverse effect on our future financial results.

Our business may be adversely affected by legislation prohibiting tobacco smoking.

Legislation in various forms to ban indoor tobacco smoking has recently been enacted or introduced in many states and local jurisdictions, including several of the jurisdictions in which we operate. If additional restrictions on smoking are enacted in jurisdictions in which we operate, we could experience a significant decrease in gaming revenue and particularly, if such restrictions are not applicable to all competitive facilities in that gaming market, our business could be materially adversely affected.

Our substantial indebtedness could adversely affect our financial health and restrict our operations.

We have a significant amount of indebtedness. As of April 24, 2011, we had approximately $1.2 billion of total debt outstanding.

Our significant indebtedness could have important consequences to our financial health, such as:

- limiting our ability to use operating cash flow or obtain additional financing to fund working capital, capital expenditures, expansion and other important areas of our business because we must dedicate a significant portion of our cash flow to make principal and interest payments on our indebtedness;

- causing an event of default if we fail to satisfy the financial and restrictive covenants contained in the indenture and agreements governing our senior secured credit facility, our 7.75% senior notes due 2019, our 7% senior subordinated notes due 2014 and our other indebtedness, which could result in all of our debt becoming immediately due and payable, could permit our secured lenders to foreclose on the assets securing our secured debt and have other adverse consequences, any of which, if not cured or waived, could have a material adverse effect on us;

- if the indebtedness under our 7.75% senior notes, our 7% senior subordinated notes, our senior secured credit facility, or our other indebtedness were to be accelerated, there can be no assurance that our assets would be sufficient to repay such indebtedness in full;

- placing us at a competitive disadvantage to our competitors who are not as highly leveraged;

- increasing our vulnerability to and limiting our ability to react to changing market conditions, changes in our industry and economic downturns or downturns in our business; and

- our agreements governing our indebtedness, among other things, require us to maintain certain specified financial ratios and to meet certain financial tests. Our debt agreements also limit our ability to:

  i. borrow money;

  ii. make capital expenditures;

  iii. use assets as security in other transactions;

  iv. make restricted payments or restricted investments;

  v. incur contingent obligations; and

  vi. sell assets and enter into leases and transactions with affiliates.

A substantial portion of our outstanding debt bears interest at variable rates, although we have entered into interest rate protection agreements expiring through fiscal 2014 with counterparty banks with respect to $320 million of our term loans under our senior secured credit facility. If short-term interest rates rise, our interest cost will increase on the unhedged portion of our variable rate indebtedness, which will adversely affect our results of operations and available cash.

Any of the factors listed above could have a material adverse effect on our business, financial condition and results of operations. We cannot assure you that our business will continue to generate sufficient cash flow, or that future available draws under our senior secured credit facility will be sufficient, to enable us to meet our liquidity needs, including those needed to service our indebtedness.

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Despite our significant indebtedness, we may still be able to incur significantly more debt. This could intensify the risks described above.

The terms of the indenture and agreements governing our senior secured credit facility, our 7.75% senior notes, our 7% senior subordinated notes and our other indebtedness limit, but do not prohibit, us or our subsidiaries from incurring significant additional indebtedness in the future.

As of April 24, 2011, we had the capacity to incur additional indebtedness, including the ability to incur additional indebtedness under all of our lines of credit, of approximately $175 million. Approximately $23 million of these lines of credit were used to support letters of credit and surety bonds. Our capacity to issue additional indebtedness is subject to the limitations imposed by the covenants in our senior secured credit facility, the indenture governing our 7.75% senior notes and the indenture governing our 7% senior subordinated notes. The indenture governing our 7% senior subordinated notes, the indenture governing our 7.75% senior notes and our senior secured credit facility contain financial and other restrictive covenants, but will not fully prohibit us from incurring additional debt. If new debt is added to our current level of indebtedness, the related risks that we now face could intensify.

If we cannot refinance our 7% senior subordinated notes on or prior to November 1, 2013, then our senior secured credit facility matures on that date and we may not be able to renew or extend our senior secured credit facility or enter into a new credit facility in today's difficult markets. If we are able to refinance our 7% senior subordinated notes or, in the alternative, renew or extend our senior secured credit facility, it may be on terms substantially less favorable than the current notes or senior secured credit facility.

Our senior secured credit facility matures on November 1, 2013 if we have not refinanced or otherwise retired the 7% senior subordinated notes on or prior to such date. Our cash flow from operations is unlikely to be sufficient to retire all of such notes at or prior to November 1, 2013. We may therefore be forced to refinance the 7% senior subordinated notes on materially worse terms than we have currently. Failure to obtain new debt on favorable or reasonable terms to replace existing debt could affect our liquidity and the value of our other securities, including our equity. Our ability to refinance or otherwise retire our 7% senior subordinated notes prior to November 1, 2013, or in the alternative to renew or extend our existing senior secured credit facility or to enter into a new credit facility to replace the existing senior secured credit facility could be impaired if market conditions worsen. In the current environment, lenders may seek more restrictive lending provisions and higher interest rates that may reduce our borrowing capacity and increase our costs. We can make no assurances that we will be able to refinance or otherwise retire our 7% senior subordinated notes prior to November 1, 2013, and if we are unable to do so, that we will be able to enter into a new credit facility or renew or extend our existing senior secured credit facility, or whether any such credit facility will be available under acceptable terms. Failure to obtain sufficient financing or financing on acceptable terms would constrain our ability to operate our business and to continue our development and expansion projects. Any of these circumstances could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to successfully expand to new locations or recover our investment in new properties which would adversely affect our operations and available resources.

We regularly evaluate opportunities for growth through development of gaming operations in existing or new markets, through acquiring or managing other gaming entertainment facilities or through redeveloping our existing facilities. The expansion of our operations, whether through acquisitions, development, management contracts or internal growth, could divert management's attention and could also cause us to incur substantial costs, including legal, professional and consulting fees. To the extent that we elect to pursue any new gaming acquisition, management or development opportunity, our ability to benefit from our investment will depend on many factors, including:

- our ability to successfully identify attractive acquisition and development opportunities;
- our ability to successfully operate any developed, managed or acquired properties;
- our ability to attract and retain competent management and employees for the new locations;
- our ability to secure required federal, state and local licenses, permits and approvals, which in some jurisdictions are limited in number and subject to intense competition; and
- the availability of adequate financing on acceptable terms.

Many of these factors are beyond our control. There have been significant disruptions in the global capital markets that have adversely impacted the ability of borrowers to access capital. Accordingly, it is likely that we are dependent on free cash flow from operations and remaining borrowing capacity under our senior secured credit facility to implement our near-term expansion plans and fund our planned capital expenditures. As a result of these and other considerations, we cannot be sure that we will be able to recover our investments in any new gaming development or management opportunities or acquired facilities, or successfully expand to additional locations.

We may experience construction delays during our expansion or development projects that could adversely affect our operations.

From time to time we may commence construction projects at our properties. We also evaluate other expansion opportunities as they become available and we may in the future engage in additional construction projects. On December 1, 2010, the Missouri Gaming Commission selected our proposed Cape Girardeau Project for prioritization for the 13th and final gaming license in the State of Missouri. The Cape Girardeau Project is expected to include approximately 1,000 slot machines, 28 table games, 3 restaurants, a lounge and terrace overlooking the Mississippi River and a 750-seat event center at an estimated cost of $125 million. On April 14, 2011, our project at the Nemacolin Woodlands Resort was selected by the Pennsylvania Gaming Control Board for the final Category 3 resort gaming license. We had previously entered into an agreement with Nemacolin to complete the build-out of the casino space and provide management services to the casino. The Nemacolin project is expected to include 600 slot machines, 28 table games, a casual dining restaurant and lounge. We currently estimate the project cost at approximately $50 million and expect to be complete within nine months of the commencement of construction. The anticipated costs and construction periods for the Cape Girardeau Project, the Nemacolin Project and other projects are based upon budgets, conceptual design documents and construction schedule estimates prepared by us in consultation with our architects. Construction projects entail significant risks, which can substantially increase costs or delay completion of a project. Such risks include shortages of materials or skilled labor, unforeseen engineering, environmental or geological problems, work stoppages, weather interference and unanticipated cost increases. Most of these factors are beyond our control. In addition, difficulties or delays in obtaining any of the requisite licenses, permits or authorizations from regulatory authorities can increase the cost or delay the completion of an expansion or development. Significant budget overruns or delays with respect to expansion and development projects could adversely affect our results of operations.

If we construct the Cape Girardeau Project and we are not granted gaming licenses, our financial condition could be materially adversely affected.

On December 1, 2010, the Missouri Gaming Commission selected our proposed Cape Girardeau Project for prioritization for the 13th and final gaming license in the State of Missouri. As a participant in this process, our subsidiary IOC-Cape Girardeau LLC applied for a Class B Riverboat Gaming License in Missouri. The decision by the Missouri Gaming Commission to prioritize its casino

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development does not provide IOC-Cape Girardeau LLC with any license to open the casino once developed or any assurance that such a license will be granted. The Class B license required for IOC-Cape Girardeau LLC to operate its proposed gaming facility cannot be granted by the Missouri Gaming Commission until the gaming facility development is substantially complete and ready to accept patrons. The grant of this license would be subject to numerous conditions as described in "Description of Government Regulations Missouri" in Exhibit 99.1 to this Annual Report on Form 10-K for the fiscal year ended April 24, 2011. If, as a result of these regulatory conditions or otherwise, we are unable to receive the gaming license after we construct the Cape Girardeau Project, our financial condition could be materially adversely affected.

If we are not licensed in Pennsylvania in connection with the proposed resort casino at Nemacolin Woodlands Resort or if our management agreement is not approved in its current form or if either of these matters are materially delayed, we may not manage the casino or the terms upon which we manage may be less favorable to us.

On April 14, 2011, the Pennsylvania Gaming Control Board (the "PGCB") awarded a Category 3 slot machine license to Woodlands Fayette, LLC for a resort casino at the Nemacolin Woodlands Resort in Fayette County, Pennsylvania. Although we have a management agreement with Woodlands Fayette to manage the proposed casino, we have not yet been licensed by the PGCB in connection with the casino project, nor has the management agreement been approved by the PGCB. There is no guaranty that we will be approved or that the management agreement will be approved in its current form. Further, the award of the license to Woodlands Fayette is subject to a 30-day appeal period which ends on June 20, 2011. Any such appeals would be made directly to the Pennsylvania Supreme Court and could take a significant period of time before a ruling is made by the court. If such an appeal is filed, it is possible that the PGCB will refrain from most, if not all, rulings regarding the casino project during the pendency of such appeal, including our licensure and approval of the management agreement.

If our key personnel leave us, our business could be adversely affected.

Our continued success will depend, among other things, on the efforts and skills of a few key executive officers and the experience of our property managers. Our ability to retain key personnel is affected by the competitiveness of our compensation packages and the other terms and conditions of employment, our continued ability to compete effectively against other gaming companies and our growth prospects. The loss of the services of any of these key individuals could have a material adverse effect on our business, financial condition and results of operations. We do not maintain "key man" life insurance for any of our employees.

We are effectively controlled by members of the Goldstein Family and their decisions may differ from those that may be made by other stockholders.

Robert S. Goldstein, our Vice Chairman of the Board, and Jeffrey D. Goldstein and Richard A. Goldstein, two of our directors, and various family trusts associated with members of the Goldstein family and entities associated with certain members of the Goldstein family, (collectively the "Goldstein Parties") directly and indirectly collectively own and control approximately 42.6% of our common stock as of April 24, 2011.

The Goldstein Parties have substantial control over the election of our board of directors and the outcome of the vote on substantially all other matters, including amendment of our amended and restated certificate of incorporation, amendment of our by-laws and significant corporate transactions, such as the approval of a merger or other transactions involving a sale of the Company. Such substantial control may have the effect of discouraging transactions involving an actual or potential change of control, which in turn could have a material adverse effect on the market price of our

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common stock or prevent our stockholders from realizing a premium over the market price for their shares of common stock. The interests of the Goldstein Parties may differ from those of our other stockholders.

Our amended and restated certificate of incorporation contains provisions that could delay and discourage takeover attempts that stockholders may consider favorable.

Certain provisions of our amended and restated certificate of incorporation may make it more difficult or prevent a third party from acquiring control of us, including:

- we may not, until the Supermajority Expiration Time (as defined below), without the affirmative vote of the holders of at least $66^{2}/_{3}$% of the Company's voting power, voting as a single class, authorize, adopt or approve certain extraordinary corporate transactions; and

- the classification of our board of directors and staggered three-year terms of service for each class of directors.

"Supermajority Expiration Time" means the first to occur of (i) the Goldstein Group ceasing to hold common stock of the Company representing at least 22.5% of our outstanding common stock, not including any shares of Class B common stock or shares of common stock issued upon conversion of any preferred stock and (ii) April 8, 2021. The "Goldstein Group" means Robert S. Goldstein, our Vice Chairman, and Jeffrey D. Goldstein and Richard A. Goldstein, two of our directors, spouses, children and grandchildren of certain members of the Goldstein family and entities associated with certain members of the Goldstein family.

These provisions may make mergers, acquisitions, tender offers, the removal of management and certain other transactions more difficult or more costly and could discourage or limit stockholder participation in such types of transactions, whether or not such transactions are favored by the stockholders. The provisions also could limit the price that investors might be willing to pay in the future for shares of our common stock. Further, the existence of these anti-takeover measures may cause potential bidders to look elsewhere, rather than initiating acquisition discussions with us. Any of these factors could reduce the price of our common stock.

We have a history of fluctuations in our operating income (losses) from continuing operations, and we may incur additional operating losses from continuing operations in the future. Our operating results could fluctuate significantly on a periodic basis.

We earned income from continuing operations of $1.1 million in fiscal 2011 and sustained a (loss) from continuing operations of $(1.5) million in fiscal 2010. Companies with fluctuations in income (loss) from continuing operations often find it more challenging to raise capital to finance improvements in their businesses and to undertake other activities that return value to their stockholders. In addition, companies with operating results that fluctuate significantly on a quarterly or annual basis experience increased volatility in their stock prices in addition to difficulties in raising capital. We cannot assure you that we will not have fluctuations in our income (losses) from continuing operations in the future, and should that occur, that we would not suffer adverse consequences to our business as a result, which could decrease the value of our common stock.

Inclement weather and other conditions could seriously disrupt our business and have a material, adverse effect on our financial condition and results of operations.

The operations of our facilities are subject to disruptions or reduced patronage as a result of severe weather conditions, natural disasters and other casualties. Because many of our gaming operations are located on or adjacent to bodies of water, these facilities are subject to risks in addition to those associated with other casinos, including loss of service due to casualty, forces of nature,

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mechanical failure, extended or extraordinary maintenance, flood, hurricane or other severe weather conditions and other disasters. In addition, severe weather such as high winds and blizzards occasionally limits access to our land-based facilities in Colorado. We cannot be sure that the proceeds from any future insurance claim will be sufficient to compensate us if one or more of our casinos experience a closure.

Reductions in discretionary consumer spending could have a material adverse effect on our business.

Our business has been and may continue to be adversely affected by the economic recession currently being experienced in the United States, as we are highly dependent on discretionary spending by our patrons. Changes in discretionary consumer spending or consumer preferences brought about by factors such as increased unemployment, significant increases in energy prices, perceived or actual deterioration in general economic conditions, the current housing market crisis, bank failures and the potential for additional bank failures, perceived or actual decline in disposable consumer income and wealth, the current global economic recession and changes in consumer confidence in the economy may continue to reduce customer demand for the leisure activities we offer and may adversely affect our revenues and operating cash flow. We are not able to predict the length or severity of the current economic circumstances.

The market price of our common stock may fluctuate significantly.

The market price of our common stock has historically been volatile and may continue to fluctuate substantially due to a number of factors, including actual or anticipated changes in our results of operations, the announcement of significant transactions or other agreements by our competitors, conditions or trends in the our industry or other entertainment industries with which we compete, general economic conditions including those affecting our customers' discretionary spending, changes in the cost of air travel or the cost of gasoline, changes in the gaming markets in which we operate and changes in the trading value of our common stock. The stock market in general, as well as stocks in the gaming sector have been subject to significant volatility and extreme price fluctuations that have sometimes been unrelated or disproportionate to individual companies' operating performances. Broad market or industry factors may harm the market price of our common stock, regardless of our operating performance.

Work stoppages, organizing drives and other labor problems could negatively impact our future profits.

Some of our employees are currently represented by a labor union or have begun organizing a drive for labor union representation. Labor unions are making a concerted effort to recruit more employees in the gaming industry. In addition, organized labor may benefit from new legislation or legal interpretations by the current presidential administration. We cannot provide any assurance that we will not experience additional or more successful union activity in the future.

Additionally, lengthy strikes or other work stoppages at any of our casino properties or construction projects could have an adverse effect on our business and result of operations.

We are or may become involved in legal proceedings that, if adversely adjudicated or settled, could impact our financial condition.

From time to time, we are defendants in various lawsuits and gaming regulatory proceedings relating to matters incidental to our business. As with all litigation, no assurance can be provided as to the outcome of these matters and, in general, litigation can be expensive and time consuming. We may not be successful in the defense or prosecution of our current or future legal proceedings, which could result in settlements or damages that could significantly impact our business, financial condition and results of operations.

Our insurance coverage may not be adequate to cover all possible losses that our properties could suffer. In addition, our insurance costs may increase and we may not be able to obtain the same insurance coverage in the future.

We may suffer damage to our property caused by a casualty loss (such as fire, natural disasters, acts of war or terrorism), that could severely disrupt our business or subject us to claims by third parties who are injured or harmed. Although we maintain insurance customary in our industry, (including property, casualty, terrorism and business interruption insurance) that insurance may not be adequate or available to cover all the risks to which our business and assets may be subject. The lack of sufficient insurance for these types of acts could expose us to heavy losses if any damages occur, directly or indirectly, that could have a significant adverse impact on our operations.

We renew our insurance policies on an annual basis. The cost of coverage may become so high that we may need to further reduce our policy limits or agree to certain exclusions from our coverage. Among other factors, it is possible that regional political tensions, homeland security concerns, other catastrophic events or any change in government legislation governing insurance coverage for acts of terrorism could materially adversely affect available insurance coverage and result in increased premiums on available coverage (which may cause us to elect to reduce our policy limits), additional exclusions from coverage or higher deductibles. Among other potential future adverse changes, in the future we may elect to not, or may not be able to, obtain any coverage for losses due to acts of terrorism.

The concentration and evolution of the slot machine manufacturing industry could impose additional costs on us.

A large majority of our revenues are attributable to slot machines at our casinos. It is important, for competitive reasons, we offer the most popular and up-to-date slot machine games, with the latest technology to our customers.

In recent years, slot machine manufacturers have frequently refused to sell slot machines featuring the most popular games, instead requiring participating lease arrangements. Generally, a participating lease is substantially more expensive over the long-term than the cost to purchase a new slot machine.

For competitive reasons, we may be forced to purchase new slot machines, slot machine systems, or enter into participating lease arrangements that are more expensive than our current costs associated with the continued operation of our existing slot machines. If the newer slot machines do not result in sufficient incremental revenues to offset the increased investment and participating lease costs, it could adversely affect our profitability.

* * * * * * *

In addition to the foregoing, you should consider each of the factors set forth in this Annual Report in evaluating our business and our prospects. The factors described in our Part 1, Item 1A are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations. This Annual Report is qualified in its entirety by these risk factors. If any of the foregoing risks actually occur, our business, financial condition and results of operation could be materially harmed. In that case, the trading price of our securities, including our common stock, could decline significantly.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Lake Charles

We own approximately 2.7 acres and lease approximately 16.2 acres of land in Calcasieu Parish, Louisiana for use in connection with our Lake Charles operations. This lease automatically renewed in March 2010 for five years and we have the option to renew it for 14 additional terms of five years each, subject to increases based on the Consumer Price Index ("CPI") with a minimum of 10% and construction of hotel facilities on the property. We own two hotels in Lake Charles with a total of 493 rooms. Annual rent payments under the Lake Charles lease are approximately $2.1 million.

Lula

We lease approximately 1,000 acres of land in Coahoma County, Mississippi and utilize approximately 50 acres in connection with the operations in Lula, Mississippi. Unless terminated by us at an earlier date, the lease expires in 2033. Rent under the lease is currently 5.5% of gross gaming revenue as reported to the Mississippi Gaming Commission, plus $100,000 annually. We also own approximately 100 acres in Coahoma County, which may be utilized for future development.

Biloxi

We lease the real estate upon which some of our land-based facilities, including the casino, are located from the City of Biloxi and the Mississippi Secretary of State at current annual rent of $595,508 per year, plus 3% of our Biloxi property's gross gaming revenues, net of state and local gaming taxes and fees, in excess of $25.0 million. The lease terminates on July 1, 2014, but it is renewable at our option for four additional terms of five years each and one more option renewal term, concluding on January 31, 2034, subject to rent increases based on the CPI, limited to 6% for each renewal period.

In April 1994, in connection with the construction of a hotel, we entered into a lease for additional land adjoining our Biloxi property. This lease with the City of Biloxi and the Mississippi Secretary of State is for an initial term of 25 years, with options to renew for six additional terms of ten years each and a final option period concluding December 31, 2085. Current annual rent is $665,500 plus 4% of gross non-gaming revenues, as defined in the lease, and renewals are subject to rent increases based on the CPI. The annual rent is adjusted after each five-year period based on increases in the CPI, limited to a 10% increase in any five-year period.

In August 2002, we entered into a lease for two additional parcels of land adjoining our property and the hotel. On the parcel adjoining the Biloxi property, we constructed a multi-level parking garage that has approximately 1,000 parking spaces. There is additional ground level parking on a parcel of land in front of the garage, also subject to this lease, with approximately 600 parking spaces. We have constructed a 400-room addition to the existing hotel on the parcel leased next to the existing hotel. In addition, we may construct a hotel above the parking garage. This lease with the City of Biloxi and the Mississippi Secretary of State is for an initial term of forty years, with one option to renew for an additional twenty-five years and additional options thereafter, with the consent of the Mississippi Secretary of State, consistent with the term of the lease described in the preceding paragraph. When combined with the base and percentage rents described for the leases in the preceding two paragraphs, annual rent under those two leases and this lease was $3.8 million for lease year ending July 31, 2010, and estimated to be $3.8 million for the lease year ending July 31, 2011. Such amounts are subject to decreases due to market adjustments and increases based on the CPI. Also, we are responsible for annual rent equal to 4% of gross retail revenue and gross cash revenue (as defined in the lease), but without double counting. If the rent minimum described in the preceding sentences is not otherwise satisfied from other rents, then this percentage rent is not in addition to the minimum rent, but rather is to be applied to that minimum.

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We also lease our Biloxi berth from the Biloxi Port Commission at an annual rent of the greater of $510,000 or 1% of the gross gaming revenue net of state and local gaming taxes. The lease terminates on July 1, 2014 and we have the option to renew it for six additional terms of five years each subject to increases based on the CPI, limited to 6% for each renewal period.

In connection with and pursuant to a settlement between the City of Biloxi and the State of Mississippi concerning the control and management of the area where we are located, we also have agreed to pay the City of Biloxi's lease obligations to the State of Mississippi for an agreed upon period of time. This amount is $580,000 per year, payable on June 30, subject to increases based on the CPI and decreases if there are other tenants of the subject property. This obligation ends after June 2018 but may be renewed for thirty years.

Natchez

Through numerous lease agreements, we lease approximately 24 acres of land in Natchez, Mississippi that are used in connection with the operations of our Natchez property. Unless terminated by us at an earlier date, the leases have varying expiration dates through 2037. Annual rent under the leases total approximately $1.2 million. We also lease approximately 7.5 acres of land that is utilized for parking at the facility. We own approximately 6 additional acres of property in Natchez, Mississippi, as well as the property upon which our hotel is located.

Vicksburg

We own approximately 60 acres in Vicksburg, Mississippi which are used in connection with the operations of our Vicksburg property.

Kansas City

We lease approximately 28 acres of land from the Kansas City Port Authority in connection with the operation of our Kansas City property. The term of the original lease was ten years and was renewed in October 2006 for an additional five years. The lease includes seven additional five-year renewal options. The minimum lease payments correspond to any rise or fall in the CPI, initially after the ten-year term of the lease or October 18, 2006 and thereafter, at each five year renewal date. Rent under the lease currently is the greater of $2.6 million (minimum rent) per year, or 3.25% of gross revenues, less complimentaries.

Boonville

We lease our 27 acre casino site in Boonville pursuant to a lease agreement with the City of Boonville. Under the terms of agreement, we lease the site for a period of ninety-nine years. In lieu of rent, we are assessed additional amounts by the City of Boonville based on a 3.5% tax on gaming revenue, up to $1.0 million, which we recognize as additional gaming taxes.

Caruthersville

We own approximately 37 acres, including our riverboat casino and 1,000 parking spaces in Caruthersville, Missouri.

Bettendorf

We own approximately 24.6 acres of land in Bettendorf, Iowa used in connection with the operations of our Bettendorf property. We also operate under a long-term lease with the City of Bettendorf, the QC Waterfront Convention Center that is adjacent to our new hotel tower. Future minimum payments associated with the convention center are approximately $1.1 million per year. We

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also lease approximately eight acres of land on a month-to-month basis from an entity owned by members of the Goldstein family, including Robert S. Goldstein, our Vice Chairman of the Board and Jeffrey D. Goldstein and Richard A. Goldstein, directors of our company, which we utilize for parking. The initial term of the lease expires 60 days after written notice is given to either party and rent under the lease is currently $60,000 annually. We terminated a lease for warehouse space in January 2010 with the same entity.

Davenport

Pursuant to various lease agreements with the City of Davenport, we lease approximately 12 acres of land in Davenport, Iowa used in connection with the operations of our Davenport property. The aggregate annual rent on these leases is approximately $0.2 million and they have varying expiration dates through 2022.

Marquette

We lease the dock site in Marquette, Iowa that is used in connection with our Marquette operations. The lease expires in 2019, and annual rent under the lease is approximately $180,000, plus $1.00 per passenger, plus 2.5% of gaming revenues (less state wagering taxes) in excess of $20.0 million but less than $40.0 million; 5% of gaming revenues (less state wagering taxes) in excess of $40.0 million but less than $60.0 million; and 7.5% of gaming revenues (less state wagering taxes) in excess of $60.0 million. We have an easement related to an overhead pedestrian bridge and driveway that is an annual payment of approximately $6,300. We also own approximately 25 acres of land for the pavilion, satellite offices, warehouse, lots by the marina and other property.

Waterloo

We own approximately 54 acres of land in Waterloo, Iowa used in connection with the operation of our Waterloo property. We also entered into a three-year lease agreement for 17,517 square feet of warehouse space. Rent under this lease is currently $5,021 per month.

Isle-Black Hawk

We own approximately 10 acres of land in Black Hawk, Colorado for use in connection with our Black Hawk operations. The property leases an additional parcel of land adjoining the Isle-Black Hawk where the Lady Luck Hotel and parking are located. This lease is for an initial term of nine years with options to renew for 18 additional terms of five years each with the final option period concluding June 1, 2094. Annual rent is currently $1.85 million indexed to correspond to any rise or fall in the CPI at one-year intervals, not to exceed a 3% increase or decrease from the previous year's rate.

Lady Luck-Black Hawk

We own or lease approximately seven acres of land in Black Hawk, Colorado for use in connection with the Lady Luck-Black Hawk. The property leases an additional parcel of land near the Lady Luck-Black Hawk for parking as described above. This lease is for an initial term of 10 years with options to renew for nine additional terms of 10 years each with the final option period concluding August 2094. Currently the annual rent is $576,000 and renewals are subject to 20% rent increases over the rate of the previous term.

Pompano

We own approximately 223 acres at Pompano.

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Other

We own all of the riverboats and barges utilized at our facilities. We also own or lease all of our gaming and non-gaming equipment.

We lease our principal corporate office in Creve Coeur, Missouri, and office space in Biloxi, Mississippi.

We own additional property and have various property leases and options to either lease or purchase property that are not directly related to our existing operations and that may be utilized in the future in connection with expansion projects at our existing facilities or development of new projects.

ITEM 3. LEGAL PROCEEDINGS

Our wholly owned subsidiary, Lady Luck Gaming Corporation, and several joint venture partners have been defendants in the Greek Civil Courts and the Greek Administrative Courts in similar lawsuits brought by the country of Greece. The actions allege that the defendants failed to make specified payments in connection with the gaming license bid process for Patras, Greece. Although it is difficult to determine the damages being sought from the lawsuits, the action may seek damages up to that aggregate amount plus interest from the date of the action.

In the Civil Court lawsuit, the Civil Court of First Instance ruled in our favor and dismissed the lawsuit in 2001. Greece appealed to the Civil Appeal Court and, in 2003, the Court rejected the appeal. Greece then appealed to the Civil Supreme Court and, in 2007, the Supreme Court ruled that the matter was not properly before the Civil Courts and should be before the Administrative Court.

In the Administrative Court lawsuit, the Administrative Court of First Instance rejected the lawsuit stating that it was not competent to hear the matter. Greece then appealed to the Administrative Appeal Court, which court rejected the appeal in 2003. Greece then appealed to the Supreme Administrative Court, which remanded the matter back to the Administrative Appeal Court for a hearing on the merits. The re-hearing took place in 2006, and in 2008 the Administrative Appeal Court rejected Greece's appeal on procedural grounds. On December 22, 2008 and January 23, 2009, Greece appealed the ruling to the Supreme Administrative Court. A hearing has tentatively been scheduled for October 2011.

The outcome of this matter is still in doubt and cannot be predicted with any degree of certainty. We intend to continue a vigorous and appropriate defense to the claims asserted in this matter. Through April 24, 2011, we have accrued an estimated liability including interest of $11.7 million. Our accrual is based upon management's estimate of the original claim by the plaintiffs for lost payments. We continue to accrue interest on the asserted claim. We are unable to estimate a total possible loss as information as to possible additional claims, if any, have not been asserted or quantified by the plaintiffs at this time.

We and our wholly-owned subsidiary, Riverboat Corporation of Mississippi ("RCM"), are defendants in a lawsuit filed in the Circuit Court of Adams County, Mississippi by Silver Land, Inc., alleging breach of contract in connection with our 2006 sale of casino operations in Vicksburg, Mississippi, to a third party. In January 2011, the court ruled in favor of Silver Land and scheduled a hearing for damages. The hearing is currently scheduled for September 2011 and Silver Land has asserted damages of approximately $2.4 million plus interest from the original judgment date in January 2011. The outcome of this matter is still in doubt and cannot be predicated with any degree of certainty. We intend to continue a vigorous and appropriate defense to the claims asserted by Silver Land in this matter. After damages are assessed, we plan to appeal the judgment of the circuit court and we believe it is more likely than not we will obtain a favorable ruling on appeal.

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We are subject to certain federal, state and local environmental protection, health and safety laws, regulations and ordinances that apply to businesses generally, and are subject to cleanup requirements at certain of our facilities as a result thereof. We have not made, and do not anticipate making material expenditures, nor do we anticipate incurring delays with respect to environmental remediation or protection. However, in part because our present and future development sites have, in some cases, been used as manufacturing facilities or other facilities that generate materials that are required to be remediated under environmental laws and regulations, there can be no guarantee that additional pre-existing conditions will not be discovered and we will not experience material liabilities or delays.

We are subject to various contingencies and litigation matters and have a number of unresolved claims. Although the ultimate liability of these contingencies, this litigation and these claims cannot be determined at this time, we believe they will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 4. [REMOVED AND RESERVED]

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a)

i.

Market Information. Our common stock is traded on the NASDAQ Global Select Market under the symbol "ISLE". The following table presents the high and low closing sales prices for our common stock as reported by the NASDAQ Global Select Market for the fiscal periods indicated.

	High	Low
First Quarter (through June 13, 2011)	$ 9.73	$ 7.89
Fiscal Year Ending April 24, 2011		
Fourth Quarter	$ 9.89	$ 8.85
Third Quarter	11.16	7.80
Second Quarter	8.95	6.66
First Quarter	12.41	8.37
Fiscal Year Ending April 25, 2010		
Fourth Quarter	$ 11.81	$ 7.28
Third Quarter	9.41	7.21
Second Quarter	12.25	9.75
First Quarter	13.78	8.65

ii.

Holders of Common Stock. As of June 13, 2011, there were approximately 1,344 holders of record of our common stock.

iii.

Dividends. We have never declared or paid any dividends with respect to our common stock and the current policy of our board of directors is to retain earnings to provide for the growth of our company. In addition, our senior secured credit facility and the indentures governing our 7% senior subordinated notes and our 7.75% senior notes limit our ability to pay dividends. See "Item 8 Financial Statements and Supplementary Data Isle of Capri Casinos, Inc. Notes to Consolidated Financial Statements Note 8." Consequently, no cash dividends are expected to be paid on our common stock in the foreseeable future. Further, there can be no assurance that our current and proposed operations would generate the funds needed to declare a cash dividend or that we would have legally available funds to pay dividends. In addition, we may fund part of our operations in the future from indebtedness, the terms of which may further prohibit or restrict the payment of cash dividends. If a holder of common stock is disqualified by the regulatory authorities from owning such shares, such holder will not be permitted to receive any dividends with respect to such stock. See "Item 1 Business Governmental Regulations."

(b)

Issuance of Unregistered Securities

None.

(c)

Purchases of our Common Stock

We have purchased our common stock under stock repurchase programs. These programs allow for the repurchase of up to 6,000,000 shares. To date we have purchased 4,895,792 shares of common stock under these programs. These programs have no approved dollar amount, nor expiration dates. No purchases were made during the fiscal year ended April 24, 2011.

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COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Isle of Capri Casinos, Inc., the NASDAQ Composite Index
and the Dow Jones US Gambling Index

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* $100 invested on 4/30/06 in stock or index, including reinvestment of dividends.

Indexes calculated on month-end basis.

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ITEM 6. SELECTED FINANCIAL DATA.

The following table presents our selected consolidated financial data for the five most recent fiscal years, which is derived from our audited consolidated financial statements and the notes to those statements. Because the data in this table does not provide all of the data contained in our consolidated financial statements, including the related notes, you should read "Management's Discussion and Analysis of Financial Condition and Results of Operations," our consolidated financial statements, including the related notes contained elsewhere in this document and other data we have filed with the U.S. Securities and Exchange Commission.

	Fiscal Year Ended(1)				
	April 24, 2011	**April 25, 2010**	**April 26, 2009**	**April 27, 2008**	**April 200**
	(dollars in millions, except per share data)				
ement rations					
enues:					
ino	$ 1,036.5	$ 1,013.4	$ 1,055.7	$ 1,092.3	$ 99
ms	40.3	43.0	46.4	49.5	4
d, erage, -mutuel other	134.7	135.0	138.6	150.1	14
ricane other rance overies			62.9	0.4	
oss enues	1,211.5	1,191.4	1,303.6	1,292.3	1,18
ss motional owances	(206.5)	(191.6)	(195.6)	(200.9)	(21
et venues	1,005.0	999.8	1,108.0	1,091.4	97
rating nses:					
ino	158.6	153.8	151.6	151.1	15
ning s	250.1	262.2	269.9	285.4	21
ms	9.8	10.9	12.3	12.5	1
d, erage, -mutuel other	45.0	44.8	51.5	57.0	4
ine and lities	60.5	61.5	64.4	65.5	5
keting inistrative	253.4	253.1	256.2	270.1	25
porate elopment	42.7	46.8	41.3	47.3	5
ense overies other rges, net		(6.8)	36.1	6.5	
ricane other rance overies			(32.3)	(1.8)	
pening				3.7	1
reciation	89.0	109.5	122.5	128.9	9

rtization			
tal erating penses	909.1	935.8	973.5

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

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

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

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

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

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

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

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

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

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

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

Management of both companies continued to negotiate final provisions in the proposed amendment to the merger agreement. Allied Riser management expressed the desire to avoid the forced sale by its stockholders of the

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

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

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

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

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

the opportunity for Allied Riser stockholders to participate in a company with greater financial resources and access to capital and long term contracts to use nationwide fiber-optic intercity and intra-city networks;

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

the determination by the Allied Riser directors that no update to Houlihan Lokey's opinion was necessary in connection with the amendment to the merger agreement and the fact that the directors did not rely on the Houlihan Lokey opinion in connection with the amendment;

the anticipated effectiveness of the merger in implementing Allied Riser's strategy to provide in-building services utilizing its broadband data network;

the potential increased scale, scope, and financial strength of the combined company, the potential greater liquidity of the combined company and the combined company's potential for increased access to capital;

the business, operations, financial condition, earnings, and prospects of Allied Riser and Cogent, taking into account the results of Allied Riser's due diligence review of Cogent;

the anticipated financial impact of the proposed transaction on the combined company's financial performance, including the resulting company's capital structure;

the complementary nature of the businesses of Allied Riser and Cogent;

the structure of the merger and the financial and other terms of the merger agreement;

the ability of Allied Riser under certain conditions to consider unsolicited alternative proposals, its ability to terminate the merger agreement under certain conditions, and the termination fees payable on certain termination events;

the likelihood that the common stock of Allied Riser will be delisted from quotation and trading on the NASDAQ National Market System if Allied Riser remained an independent company;

the anticipated tax treatment of the merger.

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

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

- the risk that Cogent will be unable to list its common stock for quotation on the NASDAQ National Market System or other national securities exchange;
- as described on pages 43 and 44 of this proxy statement/prospectus, and by virtue of certain indemnification rights, change in control arrangements, and accelerated vesting of stock options, restricted shares, and deferred share units, the fact that certain members of Allied Riser's board of directors and management might have interests in the merger that are different than those of other Allied Riser stockholders;
- the risk of possible delays associated with the completion of the merger; and
- the other risks described under "Risk Factors" beginning on page 13 of this proxy statement/prospectus.

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

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

Opinion of Allied Riser's Financial Advisor

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

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

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

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

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

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

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

Matters Reviewed

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

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

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

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

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

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

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

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

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

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

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

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

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

Assumptions and Limitations

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

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

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

Valuation of Cogent Communications Group, Inc.

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

Comparable Company Analysis.

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

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

COGENT COMMUNICATIONS
STAND-ALONE VALUATION

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

Discounted Cash Flow Analysis

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

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

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

COGENT COMMUNICATIONS
DCF VALUATION

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

		Fiscal Year Ended December 31,				
	3 Mos. Ended Dec. 31, 2001	2002	2003	2004	2005	2006

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

New Money Valuation Analysis

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

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

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

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

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

COGENT COMMUNICATIONS
STAND-ALONE VALUATION

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

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

Debt Assumption Analysis

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

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

Review of Strategic Alternatives to the Merger

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

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

ALLIED RISER ALTERNATIVES
COMMON EQUITY
($ IN MILLIONS)

	Low	High
Enterprise value	$ 380	$ 410
Less: Debt as of June 30, 2001	140	140
Value of Cogent Communications Common Equity	240	270

	Low	High
8% Equity Allocation to Allied Riser Common Equity[(1)]	19	22
Less: Discount[(2)]	35%	25%
Implied Consideration to Allied Riser Common Equity	$ 12	$ 16
Stand Alone Alternative		
Scenario 1 Liquidation	$ 0	$ 0
Scenario 2 Out of Court Restructuring	$ 13	$ 15
Current Market Value	$ 8	$ 10

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

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

Conclusion

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

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

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

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

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

- current industry, market and economic conditions, including the continuing trend of consolidation in the telecommunications industry and the importance of operational sales in remaining competitive in the long term;
- the strategic fit between the two companies and the potential for a combined company with greater financial and operational strength, including the belief that the combined company's stronger balance sheet will enable it to accelerate execution of its business plan, effect capital expenditure cost savings, and enhance the combined company's access to capital;
- the complementary nature of the companies' network footprint and service offerings;
- common technology platform and operational support systems;
- the perceived operating efficiencies of the combined company due to lower building connectivity costs, based upon Cogent's analysis of the licenses that Allied Riser holds to service potential customers by its in-building network, which identified approximately 430 buildings in various markets that are close to Cogent's out-of-building network in those markets. This is expected to result in lower end-to-end service costs to those customers; and

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

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

- the possibility of strategic alternatives to the merger for enhancing long-term stockholder value, including investigating strategic transactions with other companies;
- the potential for an increase or decrease in the market price of the combined company;
- the potential for improved trading liquidity for stockholders of the combined company;
- the terms and conditions of the merger agreement, including the termination fees and the "fiduciary duty outs," the agreements contemplated by the merger agreement, and the closing conditions;
- the expected qualification of the merger as a reorganization under section 368(a) of the Internal Revenue Code;
- the impact of the merger on Cogent and Allied Riser customers, suppliers, and employees; and
- the likelihood that the merger will be completed.

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

- the risk that, despite Cogent and Allied Riser's efforts after the merger, the combined company may lose key personnel;
- the risk that Cogent and Allied Riser's customers and suppliers might cease doing business with the combined company;
- the risk of potential adverse effects of one-time and/or recurring charges expected to be incurred in connection with the costs of the merger and the subsequent integration of the companies;
- the risk that the potential benefits of the merger might not be fully realized;
- the effect on the interests of Cogent stockholders associated with becoming a public company and the difficulties for Cogent in establishing and maintaining quotation or listing on the Nasdaq National Market or on a national securities exchange; and
- the risk of litigation by stockholders and noteholders of Allied Riser.

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

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

Regulatory Approvals Required for the Merger

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

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

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

Material U.S. Federal Income Tax Consequences

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

- insurance companies;
- financial institutions;
- dealers in securities;
- traders in securities that elect a mark to market method of accounting;
- tax-exempt organizations;
- stockholders who hold their shares as a part of a hedge, constructive sale, straddle, or conversion transaction;
- stockholders who acquired their shares through the exercise of options or otherwise as compensation or through a tax-qualified retirement plan; and
- foreign persons.

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

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

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

Tax Treatment of Allied Riser Stockholders and Allied Riser

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

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

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

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

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

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

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

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

Tax Treatment of Cogent and merger subsidiary

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

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

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

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

Accounting Treatment

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

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

Interests of Certain Persons in the Merger

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

Allied Riser Directors/Officers

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

Allied Riser Change in Control/Termination Arrangements

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

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

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

Accelerated Vesting of Stock Options and Restricted Stock. Each of the employment agreements of Messrs. Dinsmore, Bredeweg, and Carper and Ms. Compton also provide for full (or partial in the case of Mr. Bredeweg) accelerated vesting of stock options and restricted stock awarded to such executive in the event of a qualifying business combination transaction. Each of the stock option agreements and restricted stock agreements between Allied Riser and its directors and executive officers provide for full accelerated vesting of stock options and restricted stock awarded to such person in the event of a qualifying business combination transaction. The merger is expected to constitute a qualifying business combination and it is expected that each of the Allied Riser employees will be terminated in connection with the merger. The estimated value of the accelerated stock options and restricted stock to each of Mr. Dinsmore, Mr. Lynch, Mr. Spreng, Mr. Whitaker, Mr. Bredeweg, Mr. Carper, and Ms. Compton based on the difference between the $0.17 closing price of Allied Riser common stock on January 3, 2002 and the respective exercise prices of the options is approximately $0, $0, $0, $0, $0, $15,000, and $0, respectively.

Allied Riser Directors and Officer Indemnification and Insurance

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

No Appraisal Or Dissenters' Rights

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

MATERIAL TERMS OF THE MERGER AGREEMENT

General

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

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

Closing; Effective Time

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

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

Consideration to be Received in the Merger

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

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

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

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

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

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

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

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

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

Procedures for Exchange of Certificates

Exchange of Certificates

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

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

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

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

Dividends and Distributions

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

Lost Certificates

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

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

Withholding

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

Termination of Exchange Fund; No Liability

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

Stock Options; Restricted Stock; and Warrants

Stock Options

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

the number of shares of Allied Riser common stock that could have been obtained prior to the merger upon exercise of such option and

the number of shares of Cogent common stock into which each share of Allied Riser common stock is convertible in the merger;

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

the exercise price per share of Allied Riser common stock for such option immediately prior to the merger, divided by

the number of shares of Cogent common stock into which each share of Allied Riser common stock is convertible in the merger.

Restricted Stock

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

Warrants

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

the number of shares of Allied Riser common stock that could have been obtained prior to the merger upon exercise of such warrant; and

the number of shares of Cogent common stock into which each share of Allied Riser common stock is convertible in the merger;

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

the exercise price per share of Allied Riser common stock for such warrant immediately prior to the merger; divided by

the number of shares of Cogent common stock into which each share of Allied Riser common stock is convertible in the merger.

Representations and Warranties

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

it is duly organized, validly existing, and in good standing as a Delaware corporation, and its capital stock is as stated in the merger agreement;

it is duly qualified or licensed to do business and is in good standing in each jurisdiction where such qualification or license is required, except as would not have a material adverse affect on it;

it has properly authorized, executed, and delivered the merger agreement;

the merger agreement is enforceable against it, and required material consents, approvals, orders, and authorizations of governmental authorities and third parties relating to the merger agreement have been obtained except as contemplated by the merger agreement;

it will not contravene in a material manner other agreements as a result of the merger agreement;

the information it supplied for inclusion in this proxy statement/prospectus is accurate; and

the votes of its stockholders that are required in connection with the merger are as stated in the merger agreement.

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

documents it filed with the SEC do not contain untrue statements of material fact or omit material facts;

financial statements it filed with the SEC fairly present in all material respects its financial condition;

except as disclosed in its filings with the SEC or as permitted by, or as disclosed in, the merger agreement, no material changes or events have occurred with respect to Allied Riser or its subsidiaries since June 30, 2001;

- except as disclosed, there is no material suit or action filed or threatened against Allied Riser or its subsidiaries;
- Allied Riser and its subsidiaries have complied with all applicable laws and permits, except as would not cause a material adverse effect on it; and
- no broker or financial advisor, other than Houlihan Lokey, is entitled to any fee or commission in connection with the merger based on arrangements made by Allied Riser or its subsidiaries.

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

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

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

Conduct of the Business Prior to the Merger

Each of Cogent and Allied Riser has agreed to operate its business in the ordinary course of business prior to the merger, except as disclosed, and except as consented to in writing by the other party. Neither party can unreasonably withhold or delay a requested consent to an exception to this covenant.

Cogent has also agreed that:

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

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

- incur any expenses or make any payments in excess of, or take any action materially inconsistent with, the statement of authorized cash expenditures to which it has agreed with Cogent;
- declare, set aside, or pay dividends on, or make any other distributions with respect to, any of its capital stock, except for dividends by a wholly owned subsidiary of Allied Riser to its parent and dividends by its other subsidiaries of which it receives its proportionate share;
- split, combine, or reclassify any of its capital stock or issue or authorize the issuance of any other securities in substitution for its capital stock;
- purchase or redeem any shares of its capital stock or other securities thereof;
- issue or sell, or grant options to acquire, any shares of its capital stock or any securities convertible into, or exercisable for, such capital stock, except for the issuance of shares of Allied Riser common stock upon the exercise of currently outstanding options or warrants or the conversion of Allied Riser's convertible notes, in each case in accordance with the governing plan or agreement, as the case may be;
- amend its certificate of incorporation or bylaws or other comparable organizational documents;
- acquire, other than for cash consistent with the authorized cash expenditures, by merger or acquisition of stock or assets, any business or entity, except for supplies in the ordinary course of business consistent with past practice;
- incur any material debt or guaranty any such indebtedness for another person, issue or sell any debt securities or warrants or other rights to acquire any debt securities, or enter into any arrangement having a similar economic effect, except for intercompany debt and short-term borrowings incurred in the ordinary course of business consistent with past practice;

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

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

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

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

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

enter into, adopt, amend in any material respect, or terminate any benefit plan or benefit arrangement or

materially change any assumption used to calculate funding obligations with respect to any pension plan, or change the manner in which contributions to any pension plan are made or the basis on which such contributions are determined;

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

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

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

agree to take any of the foregoing actions; or

make any materially adverse tax election.

No Solicitation

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

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

participate in any discussion or negotiation regarding any takeover proposal.

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

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

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

negotiate regarding the superior proposal.

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

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

any direct or indirect acquisition of 15% or more of any class of Allied Riser's or any of its subsidiaries' equity securities;

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

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

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

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

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

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

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

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

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

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

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

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

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

Additional Agreements

Employee Benefits

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

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

Insurance and Indemnification

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

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

If the annual premiums exceed that amount, the surviving corporation will be obligated to obtain a policy with coverage that may be obtained for that amount.

Fees and Expenses

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

Listing or Nasdaq Quotation

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

Affiliates

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

Director Designation

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

Going Private Transaction

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

Reasonable Best Efforts

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

- causing certain Allied Riser stockholders to enter into voting agreements with Cogent;
- obtaining all necessary waivers, consents, or approvals by governmental entities;
- obtaining all necessary waivers, consents, or approvals from third parties;
- defending any lawsuits or legal proceedings that challenge the merger agreement; and
- executing and delivering any additional instruments.

Conditions to Completion of the Merger

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

- no court issues an order and no law is enacted which would make the completion of the merger illegal or otherwise prohibited;
- the SEC declares effective Cogent's Form S-4 registration statement, of which this proxy statement/prospectus is a part;
- the Nasdaq National Market or a national securities exchange, has approved for quotation or listing the shares of Cogent common stock to be issued in the merger, subject to official notice of issuance;
- the representations and warranties made by the other party are true and correct in all material respects (except for representations and warranties qualified by materiality, which must be true and correct) as of the closing date except to the extent expressly made as of an earlier date, in which case as of that date;
- the other party has performed in all material respects all agreements and covenants that it must perform under the merger agreement before the closing date; and
- each has received an opinion from its legal counsel that (1) the merger will constitute a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and (2) each party will constitute a "party to a reorganization" within the meaning of Section 368(b) of the Internal Revenue Code.

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

- it has received any required approval of its stockholders;
- Allied Riser has obtained material consents required in connection with the merger; and
- except as described in a schedule to the merger agreement, no litigation by or on behalf of holders of Allied Riser's securities that is reasonably likely to have a material adverse effect on the surviving corporation shall be pending or threatened against Allied Riser, its subsidiaries, or their respective officers or directors.

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

- it has received the required approval of its stockholders;
- Cogent has obtained material consents required in connection with the merger; and

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

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

Termination of the Merger Agreement

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

- by mutual written consent of Cogent and Allied Riser;
- by either Cogent or Allied Riser:
  - if we do not complete the merger on or before December 7, 2001 or, if the SEC informs Cogent or Allied Riser that the SEC will review this proxy statement/prospectus, the earlier of January 31, 2002 and the 25th day after the effective date of this proxy statement/prospectus, except that a party may not terminate the agreement if its failure to fulfill its obligations results in the merger not being completed by that date;
  - if the Allied Riser stockholders do not adopt the merger agreement;
  - if Cogent does not obtain any authorization of stockholders required to consummate the transactions contemplated by the merger agreement;
  - if a law makes the merger illegal or a court or other government authority issues a final non-appealable ruling that permanently prohibits the completion of the merger, unless the party seeking to terminate the merger agreement has not used reasonable best efforts to prevent such law or ruling from becoming final and non-appealable;
  - if the other party has breached any of its representations, warranties, covenants, or agreements contained in the merger agreement, and the breach would result in the failure to satisfy one or more of the conditions to the merger, and the breach is incapable of being cured or, if capable of being cured, has not been cured within 30 days after written notice; or
  - if Cogent did not issue at least $62 million of its Series C preferred stock for cash on substantially the terms set forth in the merger agreement by October 17, 2001.
- by Cogent, if Allied Riser or its subsidiaries or any of their respective directors or officers:
  - participates in discussions or negotiations in violation of its obligations not to solicit or encourage takeover proposals;

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

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

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

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

Termination Fee

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Amendments, Extensions and Waivers

Amendments

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

Extensions and Waivers

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

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

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

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

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

OTHER AGREEMENTS

Voting Agreements

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

- attend Allied Riser's stockholder meeting in person or by proxy; and
- vote all Allied Riser shares it owns or has the right to vote in favor of adoption of the merger agreement and approval of the merger, and any other matters necessary to complete the merger.

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

MANAGEMENT OF COGENT FOLLOWING THE MERGER AND OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

he served as Senior Audit Manager, consulting on due diligence and operational improvement issues and performing audits of public and private entities.

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

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

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

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

Board Composition

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

Board Committees

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

- recommends the appointment of independent accountants to audit our financial statements and perform services related to the audit;
- reviews the scope and results of the audit with the independent accountants;
- reviews with management and the independent accountants our annual operating results;
- considers the adequacy of the internal accounting control procedures; and
- considers the independence of our accountants.

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

Compensation Committee Interlocks and Insider Participation

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

Director Compensation

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

Executive Compensation

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

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

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

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

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

Aggregate Option Exercises in Fiscal Year 2000 and Year-end Option Values. The following table provides information about options held by named executive officers as of December 31, 2000. The value realized and the value of unexercised in-the-money options at year-end is based on the assumed price of $1.50, less the exercise price per share, multiplied by the number of shares underlying the options.

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

Employment Agreements

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

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

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

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

2000 Equity Plan

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

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

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

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

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

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

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

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

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

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

Name and Address	Common: Number of Shares	Common: Percent of Class After the Offering	Preferred A: Number of Shares	Preferred A: Percent of Class After the Offering	Preferred B: Number of Shares	Preferred B: Percent of Class After the Offering	Preferred C: Number of Shares	Preferred C: Percent of Class After the Offering	Percent Voting Control[10]
Entities affiliated with Jerusalem Ventures Partners Building One Mahla, Jerusulum 91487			9,250,000	35.6%	3,296,704	16.6%	16,042,352	32.2%	25.6%
Entities affiliated with Worldview Technology Partners 435 Tasso Street, #120 Palo Alto, CA 94301			9,250,000	35.6%	3,296,704	16.6%	9,625,411	19.3%	20.0%
Entities affiliated with Oak Investment Partners IX, LP One Gorham Island Westport, CT 06880			5,000,000	19.2%	4,395,604	22.2%	9,583,300	19.3%	17.6%
Entities affiliated with Boulder Ventures III, LP 4750 Ownings Mills Blvd. Ownings Mill, MD 21117			2,000,000	7.7%	659,340	3.3%	1,203,176	2.4%	3.5%

Entities affiliated with Broadview Capital Partners 435 Tasso Street, #120 Palo Alto, CA 94301					3,274,726	16.5%	4,439,721	8.9%	7.5%
Entities affiliated with Nassau Capital Partners					1,538,461	7.8%	2,205,823	4.4%	3.6%
ACON Venture Partners, LP 345 California Street					1,098,901	5.5%			1.2%

Suite 3300 San Francisco, CA 94104									
SMALLCAP World Fund, Inc. 3000 K Street, NW Suite 230 Washington, D.C. 20007					1,098,901	5.5%	4,973,129	10.0%	5.5%
Cisco Systems Capital Corporation(11)	7,102,156	30.5%							5.8%
David Schaeffer(1)	15,195,667	65.3%					1,604,235	3.2%	14.5%
H. Helen Lee(2)	382,666	1.7%							*
Erel Margalit(3)			9,250,000	35.6%	3,296,704	16.6%	16,042,352	32.2%	25.6%
James Wei(4)			9,250,000	35.6%	3,296,704	16.6%	9,625,411	19.3%	20.0%
Edward Glassmeyer(5)			5,000,000	19.2%	4,395,604	22.2%	9,583,300	19.3%	17.6%
William Currer(6)	300,000	1.3%			21,978	*			*
Barry Morris(7)	167,144	*			2,637	*			*
Scott Stewart(8)	107,145	*			4,396	*			*
Directors and named executive officers as a group (8 persons)(9)	23,254,778	100%	23,500,000	90.4%	11,018,023	55.6%	36,855,298	74.0%	77.4%

* Less than 1%

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

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

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

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

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

(6)

Common shares include 300,000 shares underlying currently exercisable options.

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

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

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

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

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

CERTAIN TRANSACTIONS

Cogent Headquarters Lease

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

PRICE RANGE OF COMMON STOCK AND DIVIDENDS

Allied Riser

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

	Stock Price	
Calendar Year	**High**	**Low**
2001		
Fourth Quarter	$ 0.29	$ 0.06
Third Quarter	0.65	0.06
Second Quarter	1.59	0.40
First Quarter	4.50	1.25
2000		
Fourth Quarter	6.94	1.06

	Stock Price	
Third Quarter	16.00	4.56
Second Quarter	34.50	9.03
First Quarter	48.75	18.75
1999		
Fourth Quarter	26.13	15.12
Third Quarter		
Second Quarter		
First Quarter		

There were approximately 567 owners of record of Allied Riser common stock as of January 1, 2002.

On August 28, 2001, the last full trading day before the public announcement of the proposed merger, the high and low sale prices per share for Allied Riser common stock as reported on the Nasdaq National Market were $0.13 and $0.10, respectively. On January 3, 2002, the high and low sale prices per share for Allied Riser common stock as reported on the Nasdaq National Market were $0.18 and $0.16, respectively.

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

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

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

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

Cogent

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

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

INFORMATION ABOUT COGENT

Description of Business

Overview

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

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

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

Our Solution

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

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

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

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

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

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

Our Network

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

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

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

Market Opportunity

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

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

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

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

Our Strategy

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

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

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

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

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

Our Competitors

We face competition from many established competitors with significantly greater financial resources, well-established brand names and large, existing installed customer bases. We also face competition from more recent entrants to the communications services market. Many of these companies offer products and services that are similar to our products and services, and we expect the level of competition to intensify in the future. We believe that competition will be based on many factors, including price, transmission speed, ease of access and use, breadth of service availability, reliability of service, customer support and brand recognition.

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

In-building Competitors

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

Local telephone companies

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

Long distance companies

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

Competitive local telephone companies.

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

Fixed wireless service providers

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

Internet service providers

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

Cable-based service providers

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

Other high-speed Internet service providers

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

Material Contracts

Agreements with Metromedia Fiber Networks

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

Agreements with Williams Communications

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

- interim transmission capacity while it awaits delivery of certain segments of its fiber under the IRU agreement;

services related to the installation of Cogent's equipment along the fiber route; and

maintenance services.

Credit Agreement with Cisco Systems Capital Corporation

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

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

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

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

on or before the closing under the new facility, a closing fee equal to $1,980,000;

a commitment fee equal to 1.00% per annum on the average daily unused portion of the then-available aggregate commitment; and

a facility fee equal to $30,000 per quarter in which any amount of principal, interest or fees under the facility is payable.

Product and Service Agreement with Cisco Systems

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

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

Regulation

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

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

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

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

Employees

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

Description of Properties

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

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

Legal Proceedings

Cogent is not a party to any material legal proceedings.

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

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

General Overview

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

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

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

Recent Developments

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

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

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

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

Results of Operations

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

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

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

temporary leased transmission capacity incurred for certain segments until its nationwide fiber-optic intercity network is placed in service;

the cost of leased network equipment sites and facilities;

salaries and related expenses of employees directly involved with Cogent's network activities;

building access agreement fees paid to landlords; and

maintenance charges related to Cogent's nationwide fiber-optic intercity network.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

186 employees at December 31, 2000 versus three employees at December 31, 1999.

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

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

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

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Recent Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses financial accounting and reporting for business combinations. All business combinations in the scope of this Statement will be accounted for using the purchase method of accounting. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001, and business combinations accounted for by the purchase method for which the date of acquisition is July 1, 2001, or later. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. Under this Statement, goodwill will no longer be amortized but will be tested for impairment at least annually at the reporting unit level. Goodwill will be tested for impairment on an interim basis if an event occurs or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying value. Intangible assets which remain subject to amortization will be reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The provisions of SFAS No. 142 are required to be applied starting with fiscal years beginning after December 15, 2001. The proposed merger transaction with Allied, if consummated, will be accounted for in accordance with SFAS No. 141 and No. 142.

Quantitative and Qualitative Disclosures About Market Risk

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

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

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

INFORMATION ABOUT ALLIED RISER

Description of Business

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

The predecessor of Allied Riser, RCH Holdings, Inc., was formed in 1996. Allied Riser was formed on November 2, 1998, as a Delaware corporation. Immediately following the incorporation of Allied Riser, a reorganization of RCH Holdings, Inc. occurred. The wholly owned subsidiaries of RCH Holdings, Allied Riser Communications, Inc., and Carrier Direct, Inc., both Texas corporations, distributed their assets and liabilities to RCH Holdings in a complete liquidation and dissolution. Thereafter, RCH Holdings transferred all of its assets and liabilities to Allied Riser in exchange for shares of common stock. Allied Riser then contributed these assets and liabilities to its wholly owned subsidiary, Allied Riser Operations Corporation. In June 1997, Allied Riser began installing its network and began operating its first in-building network in January 1998. In 1998 Allied Riser sold equity to several sponsors and, in 1999, completed another round of private equity financing and signed agreements with owners and managers of significant real estate portfolios. In October 1999, Allied Riser completed an initial public offering of its common stock. During the third quarter of 2000, Allied Riser, through its wholly owned subsidiary, Allied Riser Canada, acquired 68% of the common stock of Shared Technologies of

Canada, Inc (STOC). Pursuant to a shareholders agreement dated July 26, 2000 between Allied Riser and the minority shareholders in STOC, effective October 31, 2001, such minority shareholders have the right to cause Allied Riser to purchase their shares of STOC at a per share price determined by a formula described in the shareholders agreement. Such amount is not material to the financial position or results of operations of Allied Riser.

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

Facilities and Operations

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

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

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

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

Competition

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

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

Regulation

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

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

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

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

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

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

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

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

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

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

The FCC regulates common carriers' interstate services. State public utilities commissions exercise jurisdiction over intrastate basic telecommunications services, but we believe do not regulate most enhanced services, which involve more than the pure transmission of customer-provided information. The FCC has preempted certain inconsistent state regulation of, and does not itself regulate, enhanced services. We believe that all of the communications services that we currently provide are enhanced services and therefore not subject to direct regulation. The offerings of many of our competitors and vendors, especially incumbent local telephone companies, are subject to direct federal and state regulations. These regulations change from time to time in ways that are difficult for us to predict.

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

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

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

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

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

Employees

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

Description of Properties

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

Legal Proceedings

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

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

Supplementary Financial Information (Unaudited)

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

	Three Months Ended										
	Mar. 31, 1999	**June 30, 1999**	**Sept. 30, 1999**	**Dec. 31, 1999**	**Mar. 31, 2000**	**June 30, 2000**	**Sept. 30, 2000**	**Dec. 31, 2000**	**Mar. 31, 2001**	**June 30, 2001**	**Sept. 30, 2001**
	(In thousands, except per share data)										
Total revenue	$ 146	$ 401	$ 442	$ 881	$ 1,358	$ 1,972	$ 4,403	$ 6,599	$ 7,929	$ 8,573	$ 7,725
Operating income (loss)	(5,742)	(14,589)	(16,162)	(24,284)	(41,194)	(46,933)	(49,347)	(44,809)	(42,689)	(307,104)	(37,323)
Net income (loss)	(5,327)	(14,635)	(16,030)	(21,496)	(37,025)	(44,068)	(47,217)	(45,098)	(43,310)	(291,154)	(39,649)
Net income (loss) applicable to common stock	$ (6,977)	$ (16,285)	$ (18,270)	$ (22,408)	$ (37,025)	$ (44,068)	$ (47,217)	$ (45,098)	$ (43,310)	$ (291,154)	$ (39,649)
Net income (loss) per common share	$(.31)	$(.71)	$(.68)	$(.48)	$(.69)	$(.81)	$(.87)	$(.81)	$(.75)	$(4.82)	$(.66)
	22,396	22,886	26,809	46,534	53,318	54,272	54,565	55,644	58,121	60,372	59,978

	Three Months Ended
Weighted average number of shares outstanding	

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

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

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

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

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

Recent Developments

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

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

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

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

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

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

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

Results of Operations

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

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

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

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

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

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

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

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

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

expense includes net deferred compensation of $1,484,000 for the nine months ended September 30, 2001