MORGAN STANLEY
Form FWP
March 22, 2019

March 2019

Preliminary Terms No. 1,754

Registration Statement Nos. 333-221595; 333-221595-01

Dated March 22, 2019

Filed pursuant to Rule 433

Morgan Stanley Finance LLC

Structured Investments

Opportunities in U.S. Equities

Contingent Income Auto-Callable Securities due March 31, 2022, With 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the Common Stock of The Boeing Company and the Common Stock of FedEx Corporation

Fully and Unconditionally Guaranteed by Morgan Stanley

Principal at Risk Securities

The securities offered are unsecured obligations of Morgan Stanley Finance LLC ("MSFL") and are fully and unconditionally guaranteed by Morgan Stanley. The securities have the terms described in the accompanying product supplement and prospectus, as supplemented or modified by this document. The securities do not guarantee the repayment of principal and do not provide for the regular payment of interest. Instead, the securities will pay a contingent quarterly coupon **but only if** the determination closing price of **each of the common stock of The Boeing Company and the common stock of FedEx Corporation**, which we refer to collectively as the underlying stocks, is **at or above** 65% of its respective initial share price, which we refer to as the respective downside threshold level, on the related observation date. If, however, the determination closing price of **either underlying stock** is less than its respective downside threshold level on any observation date, we will pay no interest for the related quarterly period. In addition, the securities will be automatically redeemed if the determination closing price of **each underlying stock** is **greater than or equal to** its respective initial share price on any quarterly redemption determination date (beginning after six months) for the early redemption payment equal to the sum of the stated principal amount plus the related contingent quarterly coupon. At maturity, if the securities have not previously been redeemed and the final share price of **each underlying stock** is **greater than or equal to** its respective downside threshold level, the payment at maturity will also be the sum of the stated principal amount and the related contingent quarterly coupon. However, if the final share price of **either underlying stock** is **less than** its respective downside threshold level, investors will be exposed to the decline in the worst performing underlying stock on a 1-to-1 basis and will receive a payment at maturity that is less than 65% of the stated principal amount of the securities and could be zero. **Accordingly, investors in the securities must be willing to accept the risk of losing their entire initial investment and also the risk of not receiving any contingent quarterly coupons throughout the 3-year term of the securities.** The securities are for investors who are willing to risk their principal and seek an opportunity to earn interest at a potentially above-market rate in exchange for the risk of receiving no quarterly interest over the entire 3-year term and in exchange for the possibility of an automatic early redemption prior to maturity. Because the payment of contingent quarterly coupons is based on the worst performing of the underlying stocks, the fact that the securities are linked to two underlying stocks does not provide any asset diversification benefits and instead means that a decline of **either** underlying stock below the relevant downside threshold level will result in no contingent quarterly coupons, even if the other underlying stock closes at or above its downside threshold level. Because all payments on the securities are based on the worst performing of the underlying stocks, a decline beyond the respective downside threshold level of either underlying stock will result in no contingent quarterly coupon payments and a significant loss of your investment, even if the other underlying stock has appreciated or has not declined as much. Investors will not participate in any appreciation of either underlying stock. The securities are notes issued as part of MSFL's Series A Global Medium-Term Notes program.

All payments are subject to our credit risk. If we default on our obligations, you could lose some or all of your investment. These securities are not secured obligations and you will not have any security interest in, or otherwise have any access to, any underlying reference asset or assets.

SUMMARY TERMS

Issuer:	Morgan Stanley Finance LLC
Guarantor:	Morgan Stanley
Underlying stocks:	The Boeing Company common stock (the "BA Stock") and FedEx Corporation common stock (the "FDX Stock")
Aggregate principal amount:	$
Stated principal amount:	$1,000 per security
Issue price:	$1,000 per security (see "Commissions and issue price" below)
Pricing date:	March 26, 2019
Original issue date:	March 29, 2019 (3 business days after the pricing date)
Maturity date:	March 31, 2022
Early redemption:	The securities are not subject to automatic early redemption until October 1, 2019. Following this initial

	six-month non-call period, if, on any redemption determination date, beginning on September 26, 2019, the determination closing price of **each underlying stock** is greater than or equal to its respective initial share price, the securities will be automatically redeemed for an early redemption payment on the related early redemption date. No further payments will be made on the securities once they have been redeemed. **The securities will not be redeemed early on any early redemption date if the determination closing price of either underlying stock is below its respective initial share price on the related redemption determination date.**
Early redemption payment:	The early redemption payment will be an amount equal to (i) the stated principal amount for each security you hold *plus* (ii) the contingent quarterly coupon with respect to the related observation date.
Determination closing price:	With respect to each underlying stock, the closing price of such underlying stock on any redemption determination date or observation date (other than the final observation date), *times* the adjustment factor on such determination date or observation date, as applicable
Redemption determination dates:	Beginning after six months, quarterly, as set forth under "Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates" below, subject to postponement for non-trading days and certain market disruption events
Early redemption dates:	Starting on October 1, 2019, quarterly. See "Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates" below. If any such day is not a business day, that early redemption payment will be made on the next succeeding business day and no adjustment will be made to any early redemption payment made on that succeeding business day
Contingent quarterly coupon:	A *contingent* quarterly coupon at an annual rate of at least 12.04% (corresponding to at least approximately $30.10 per quarter per security, to be determined on the pricing date) will be paid on the securities on each coupon payment date ***but only if*** the determination closing price of **each underlying stock** is at or above its respective downside threshold level on the related observation date. **If, on any observation date, the determination closing price of either underlying stock is less than its respective downside threshold level, no contingent**

	quarterly coupon will be paid with respect to that observation date. It is possible that one or both underlying stocks will remain below their respective downside threshold level(s) for extended periods of time or even throughout the entire 3-year term of the securities so that you will receive few or no contingent quarterly coupons.
Downside threshold level:	With respect to the BA Stock, $, which is equal to 65% of its initial share price With respect to the FDX Stock, $, which is equal to 65% of its initial share price
Payment at maturity:	If the securities are not redeemed prior to maturity, investors will receive a payment at maturity determined as follows: · If the final share price of **each underlying stock** is **greater than or equal to** its respective downside threshold level: (i) the stated principal amount *plus* (ii) the contingent quarterly coupon with respect to the final observation date · If the final share price of **either underlying stock** is **less than** its respective downside threshold level: (i) the stated principal amount *multiplied by* (ii) the share performance factor of the worst performing underlying stock *Under these circumstances, the payment at maturity will be significantly less than the stated principal amount of $1,000, and will represent a loss of more than 35%, and possibly all, of your investment.* ***Terms continued on the following page***
Agent:	Morgan Stanley & Co. LLC ("MS & Co."), an affiliate of MSFL and a wholly owned subsidiary of Morgan Stanley. See "Supplemental information regarding plan of distribution; conflicts of interest."
Estimated value on the pricing date:	Approximately $964.10 per security, or within $22.50 of that estimate. See "Investment Summary" beginning on page 3.

Commissions and issue price:	**Price to public**	**Agent's commissions**[(1)]	**Proceeds to us**[(2)]
Per security	$1,000	$	$
Total	$	$	$

(1) Selected dealers and their financial advisors will collectively receive from the agent, Morgan Stanley & Co. LLC, a fixed sales commission of $ for each security they sell. See "Supplemental information regarding plan of distribution; conflicts of interest." For additional information, see "Plan of Distribution (Conflicts of Interest)" in the accompanying product supplement.

(2) See "Use of proceeds and hedging" on page 30.

The securities involve risks not associated with an investment in ordinary debt securities. See "Risk Factors" beginning on page 12.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this document or the accompanying product supplement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The securities are not deposits or savings accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality, nor are they obligations of, or guaranteed by, a bank.

You should read this document together with the related product supplement and prospectus, each of which can be accessed via the hyperlinks below. Please also see "Additional Terms of the Securities" and "Additional Information About the Securities" at the end of this document.

As used in this document, "we," "us" and "our" refer to Morgan Stanley or MSFL, or Morgan Stanley and MSFL collectively, as the context requires.

Product Supplement for Auto-Callable Securities dated November 16, 2017 **Prospectus dated November 16, 2017**

Morgan Stanley Finance LLC

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Principal at Risk Securities

Terms continued from previous page:

Initial share price:	With respect to the BA Stock, $, which is its closing price on the pricing date With respect to the FDX Stock, $, which is its closing price on the pricing date
Coupon payment dates:	Quarterly, as set forth under "Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates" below. If any such day is not a business day, that coupon payment will be made on the next succeeding business day and no adjustment will be made to any coupon payment made on that succeeding business day; *provided further* that the contingent quarterly coupon, if any, with respect to the final observation date shall be paid on the maturity date.
Observation dates:	Quarterly, as set forth under "Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates" below, subject, independently in the case of each underlying stock, to postponement for non-trading days and certain market disruption events. We also refer to March 28, 2022 as the final observation date.
Final share price:	With respect to each underlying stock, the closing price of such underlying stock on the final observation date *times* the adjustment factor on such date
Adjustment factor:	With respect to each underlying stock, 1.0, subject to adjustment in the event of certain corporate events affecting such underlying stock
Worst performing underlying stock:	The underlying stock with the larger percentage decrease from the respective initial share price to the respective final share price
Share performance factor:	Final share price *divided by* the initial share price
CUSIP / ISIN:	61768D3T0 / US61768D3T07
Listing:	The securities will not be listed on any securities exchange.

Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates

Observation Dates / Redemption Determination Dates	Coupon Payment Dates / Early Redemption Dates
June 26, 2019*	July 1, 2019*
September 26, 2019	October 1, 2019
December 26, 2019	December 31, 2019
March 26, 2020	March 31, 2020
June 26, 2020	July 1, 2020
September 28, 2020	October 1, 2020
December 28, 2020	December 31, 2020
March 26, 2021	March 31, 2021
June 28, 2021	July 1, 2021
September 27, 2021	September 30, 2021
December 27, 2021	December 30, 2021
March 28, 2022 (final observation date)	March 31, 2022 (maturity date)

* The securities are not subject to automatic early redemption until the second coupon payment date, which is October 1, 2019.

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Principal at Risk Securities

Investment Summary

Contingent Income Auto-Callable Securities

Principal at Risk Securities

Contingent Income Auto-Callable Securities due March 31, 2022, With 6-month Initial Non-Call Period All Payments on the Securities Based on the Worst Performing of the Common Stock of The Boeing Company and the Common Stock of FedEx Corporation (the "securities") do not provide for the regular payment of interest. Instead, the securities will pay a contingent quarterly coupon at an annual rate of at least 12.04% (to be determined on the pricing date) **but only if** the determination closing price of **each underlying stock** is **at or above** 65% of its respective initial share price, which we refer to as the respective downside threshold level, on the related observation date. If the determination closing price of **either underlying stock** is less than its downside threshold level on any observation date, we will pay no coupon for the related quarterly period. It is possible that the determination closing price of **one or both underlying stocks will remain below their respective downside threshold levels** for extended periods of time or even throughout the entire 3-year term of the securities so that you will receive few or no contingent quarterly coupons during the entire term of the securities. We refer to these coupons as contingent, because there is no guarantee that you will receive a coupon payment on any coupon payment date. Even if both underlying stocks were to be at or above their respective downside threshold levels on some quarterly observation dates, one or both underlying stocks may fluctuate below the respective downside threshold level(s) on others. In addition, if the securities have not been automatically called prior to maturity and the final share price of **either underlying stock** is less than its respective downside threshold level, investors will be exposed to the decline in the worst performing underlying stock on a 1-to-1 basis, and will receive a payment at maturity that is less than 65% of the stated principal amount of the securities and could be zero. **Accordingly, investors in the securities must be willing to accept the risk of losing their entire initial investment and also the risk of not receiving any contingent quarterly payments throughout the entire 3-year term of the securities.**

Maturity:	Approximately 3 years
Contingent quarterly coupon:	A *contingent* quarterly coupon at an annual rate of at least 12.04% (corresponding to at least approximately $30.10 per quarter per security, to be determined on the pricing date) will be paid on the securities on each coupon payment date **but only if** the determination closing price of **each underlying stock** is at or above its respective downside threshold level on the related observation date. **If on any observation date, the determination closing price of either underlying stock is less than its respective downside threshold level, we will pay no coupon for the applicable quarterly period.**
Automatic early redemption quarterly in or after October 2019:	Starting on October 1, 2019, if the determination closing price of **each underlying stock** is greater than or equal to their respective initial share price on any quarterly redemption determination date, beginning on September 26, 2019, the securities will be automatically redeemed for an early redemption payment equal to the stated principal amount *plus* the contingent quarterly coupon with respect to the related observation date.
Payment at maturity:	If the securities have not previously been redeemed and the final share price of **each underlying stock** is **greater than or equal to** its respective downside threshold level, the payment at maturity will be the sum of the stated principal amount and the related contingent quarterly coupon. If the final share price of **either underlying stock** is less than its downside threshold level, investors will receive a payment at maturity based on the decline in the worst performing underlying stock over the term of the securities. Under these circumstances, the payment at maturity will be less than 65% of the stated principal amount of the securities and could be zero. **Accordingly, investors in the securities must be willing to accept the risk of losing their entire initial investment.**

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All Payments on the Securities Based on the Worst Performing of the Common Stock of The Boeing Company and the Common Stock of FedEx Corporation

Principal at Risk Securities

The original issue price of each security is $1,000. This price includes costs associated with issuing, selling, structuring and hedging the securities, which are borne by you, and, consequently, the estimated value of the securities on the pricing date will be less than $1,000. We estimate that the value of each security on the pricing date will be approximately $964.10, or within $22.50 of that estimate. Our estimate of the value of the securities as determined on the pricing date will be set forth in the final pricing supplement.

What goes into the estimated value on the pricing date?

In valuing the securities on the pricing date, we take into account that the securities comprise both a debt component and a performance-based component linked to the underlying stocks. The estimated value of the securities is determined using our own pricing and valuation models, market inputs and assumptions relating to the underlying stocks, instruments based on the underlying stocks, volatility and other factors including current and expected interest rates, as well as an interest rate related to our secondary market credit spread, which is the implied interest rate at which our conventional fixed rate debt trades in the secondary market.

What determines the economic terms of the securities?

In determining the economic terms of the securities, including the contingent quarterly coupon rate and the downside threshold levels, we use an internal funding rate, which is likely to be lower than our secondary market credit spreads and therefore advantageous to us. If the issuing, selling, structuring and hedging costs borne by you were lower or if the internal funding rate were higher, one or more terms of the securities would be more favorable to you.

What is the relationship between the estimated value on the pricing date and the secondary market price of the securities?

The price at which MS & Co. purchases the securities in the secondary market, absent changes in market conditions, including those related to the underlying stocks, may vary from, and be lower than, the estimated value on the pricing date, because the secondary market price takes into account our secondary market credit spread as well as the bid-offer spread that MS & Co. would charge in a secondary market transaction of this type and other factors. However, because the costs associated with issuing, selling, structuring and hedging the securities are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the securities in the secondary market, absent changes in market conditions, including those related to the underlying stocks, and to our secondary market credit spreads, it would do so based on values higher than the estimated value. We expect that those higher values will also be reflected in your brokerage account statements.

MS & Co. may, but is not obligated to, make a market in the securities, and, if it once chooses to make a market, may cease doing so at any time.

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Principal at Risk Securities

Key Investment Rationale

The securities do not provide for the regular payment of interest. Instead, the securities will pay a contingent quarterly coupon **but only if** the determination closing price of **each underlying stock** is **at or above** its respective downside threshold level on the related observation date. The securities have been designed for investors who are willing to forgo market floating interest rates and risk the loss of principal and accept the risk of receiving few or no coupon payments for the entire 3-year term of the securities in exchange for an opportunity to earn interest at a potentially above-market rate if both underlying stocks close at or above their respective downside threshold levels on each quarterly observation date, unless the securities are redeemed early. The following scenarios are for illustration purposes only to demonstrate how the coupon and the payment at maturity (if the securities have not previously been redeemed) are calculated, and do not attempt to demonstrate every situation that may occur. Accordingly, the securities may or may not be redeemed, the contingent coupon may be payable in none of, or some but not all of, the quarterly periods during the 3-year term of the securities, and the payment at maturity may be less than 65% of the stated principal amount of the securities and may be zero.

Scenario 1: The securities are redeemed prior to maturity	This scenario assumes that, prior to early redemption, both underlying stocks close at or above their respective downside threshold levels on some quarterly observation dates, but one or both underlying stocks close below the respective downside threshold level(s) on the others. Investors receive the contingent quarterly coupon for the quarterly periods for which the determination closing prices of both underlying stocks are at or above their respective downside threshold levels on the related observation date, but not for the quarterly periods for which the determination closing price(s) of one or both underlying stocks are below the respective downside threshold level(s) on the related observation date.
	When both underlying stocks close at or above their respective initial share prices on a quarterly redemption determination date (beginning after six months), the securities will be automatically redeemed for the stated principal amount *plus* the contingent quarterly coupon with respect to the

related observation date.

Scenario 2: The securities are not redeemed prior to maturity, and investors receive principal back at maturity

This scenario assumes that both underlying stocks close at or above their respective downside threshold levels on some quarterly observation dates, but one of both underlying stocks close below the respective downside threshold level(s) on the others, and at least one of the underlying stocks closes below its initial share price on every quarterly redemption determination date. Consequently, the securities are not redeemed early, and investors receive the contingent quarterly coupon for the quarterly periods for which the determination closing prices of both underlying stocks are at or above their respective downside threshold levels on the related observation date, but not for the quarterly periods for which the determination closing price(s) of one or both underlying stocks are below the respective downside threshold level(s) on the related observation date. On the final observation date, both underlying stocks close at or above their respective downside threshold levels. At maturity, in addition to the contingent quarterly coupon with respect to the final observation date, investors will receive the stated principal amount.

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Principal at Risk Securities

Scenario 3: The securities are not redeemed prior to maturity, and investors suffer a substantial loss of principal at maturity	This scenario assumes that both underlying stocks close at or above their respective downside threshold levels on some quarterly observation dates, but one or both underlying stocks close below the respective downside threshold level(s) on the others, and at least one of the underlying stocks closes below its initial share prices on every quarterly redemption determination date. Consequently, the securities are not redeemed early, and investors receive the contingent quarterly coupon for the quarterly periods for which the determination closing prices of both underlying stocks are greater than or equal to their respective downside threshold levels on the related observation date, but not for the quarterly periods for which the determination closing price(s) of one or both underlying stocks are below the respective downside threshold level(s) on the related observation date. On the final observation date, one or both underlying stocks close below the respective downside threshold level(s). At maturity, investors will receive an amount equal to the stated principal amount multiplied by the share performance factor of the worst performing underlying stock. Under these circumstances, the payment at maturity will be less than 65% of the stated principal amount and could be zero. No coupon will be paid at maturity in this scenario.

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Principal at Risk Securities

How the Securities Work

The following diagrams illustrate the potential outcomes for the securities depending on (1) the determination closing prices on each quarterly observation date, (2) the determination closing prices on each quarterly redemption determination date and (3) the final share prices. Please see "Hypothetical Examples" below for an illustration of hypothetical payouts on the securities.

Diagram #1: Contingent Quarterly Coupons (Beginning on the First Coupon Payment Date until Early Redemption or Maturity)

Diagram #2: Automatic Early Redemption (Starting in October 2019)

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Diagram #3: Payment at Maturity if No Automatic Early Redemption Occurs

For more information about the payout upon an early redemption or at maturity in different hypothetical scenarios, see "Hypothetical Examples" below.

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Principal at Risk Securities

Hypothetical Examples

The following hypothetical examples illustrate how to determine whether a contingent quarterly coupon is paid with respect to an observation date and how to calculate the payment at maturity, if any, assuming the securities are not redeemed prior to maturity. The following examples are for illustrative purposes only. Whether you receive a contingent quarterly coupon will be determined by reference to the determination closing price of each underlying stock on each quarterly observation date, and the amount you will receive at maturity, if any, will be determined by reference to the final share price of each underlying stock on the final observation date. The actual initial share price and downside threshold level for each underlying stock will be determined on the pricing date. All payments on the securities, if any, are subject to our credit risk. The below examples are based on the following terms:

Hypothetical Contingent Quarterly Coupon:	12.04% per annum (corresponding to approximately $30.10 per quarter per security)[1] **With respect to each coupon payment date, a contingent quarterly coupon is paid but only if the determination closing price of each underlying stock is at or above its respective downside threshold level on the related observation date.**
Payment at Maturity (if the securities are not redeemed prior to maturity):	If the final share price of **each** underlying stock is **greater than or equal to** its respective downside threshold level: the stated principal amount and the contingent quarterly coupon with respect to the final observation date If the final share price of **either** underlying stock is **less than** its respective downside threshold level: (i) the stated principal amount *multiplied by* (ii) the share performance factor of the worst performing underlying stock
Stated Principal Amount:	$1,000
Hypothetical Initial Share Price:	With respect to the BA Stock: $370.00

With respect to the FDX Stock: $180.00
With respect to the BA Stock: $240.50, which is 65% of its hypothetical initial share price

Hypothetical Downside Threshold Level:

With respect to the FDX Stock: $117.00, which is 65% of its hypothetical initial share price

[1] The actual contingent quarterly coupon will be an amount determined by the calculation agent based on the actual contingent quarterly coupon rate and the number of days in the applicable payment period, calculated on a 30/360 day count basis. The hypothetical contingent quarterly coupon of $30.10 is used in these examples for ease of analysis.

How to determine whether a contingent quarterly coupon is payable with respect to an observation date:

	Determination Closing Price		Hypothetical Contingent Quarterly Coupon
	BA Stock	FDX Stock	
Hypothetical Observation Date 1	$385.00 (**at or above** its downside threshold level)	$200.00 (**at or above** its downside threshold level)	$30.10
Hypothetical Observation Date 2	$220.00 (**below** its downside threshold level)	$145.00 (**at or above** its downside threshold level)	$0
Hypothetical Observation Date 3	$275.00 (**at or above** its downside threshold level)	$105.00 (**below** its downside threshold level)	$0
Hypothetical Observation Date 4	$200.00 (**below** its downside threshold level)	$100.00 (**below** its downside threshold level)	$0

On hypothetical observation date 1, both the BA Stock and FDX Stock close at or above their respective downside threshold levels. Therefore, a hypothetical contingent quarterly coupon of $30.10 is paid on the relevant coupon payment date.

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On each of hypothetical observation dates 2 and 3, one underlying stock closes at or above its downside threshold level but the other underlying stock closes below its downside threshold level. Therefore, no contingent quarterly coupon is paid on the relevant coupon payment date.

On hypothetical observation date 4, each underlying stock closes below its respective downside threshold level and accordingly no contingent quarterly coupon is paid on the relevant coupon payment date.

You will not receive a contingent quarterly coupon on any coupon payment date if the determination closing price of either underlying stock is below its respective downside threshold level on the related observation date.

How to calculate the payment at maturity:

In the following examples, one or both underlying stocks close below the respective initial share price(s) on each redemption determination date, and, consequently, the securities are not automatically redeemed prior to, and remain outstanding until, maturity.

	Final Share Price		Payment at Maturity
	BA Stock	FDX Stock	
Example 1:	$400.00 (**at or above** its downside threshold level)	$200.00 (**at or above** its downside threshold level)	$1,030.10 (the stated principal amount *plus* the contingent quarterly coupon with respect to the final observation date)

Example 2:	$166.50 (**below** its downside threshold level)	$195.00 (**at or above** its initial share price)	$1,000 x share performance factor of the worst performing underlying stock = $1,000 x ($166.50 / $370.00) = $450.00
Example 3:	$300.00 (**at or above** its downside threshold level)	$72.00 (**below** its downside threshold level)	$1,000 x ($72.00 / $180.00) = $400.00
Example 4:	$148.00 (**below** its downside threshold level)	$63.00 (**below** its downside threshold level)	$1,000 x ($63.00 / $180.00) = $350.00
Example 5:	$111.00 (**below** its downside threshold level)	$63.00 (**below** its downside threshold level)	$1,000 x ($111.00 / $370.00 = $300.00

In example 1, the final share prices of both the BA Stock and FDX Stock are at or above their respective downside threshold levels. Therefore, investors receive at maturity the stated principal amount of the securities and the hypothetical contingent quarterly coupon with respect to the final observation date. However, investors do not participate in any appreciation of either underlying stock.

In example 2, the final share price of one underlying stock is above its initial share price, but the final share price of the other underlying stock is below its downside threshold level. Therefore, investors are exposed to the downside performance of the worst performing underlying stock at maturity and receive an amount equal to the stated principal amount *times* the share performance factor of the worst performing underlying stock.

In example 3, the final share price of one underlying stock is at or above its downside threshold level, but the final share price of the other underlying stock is below its downside threshold level. Therefore, investors are exposed to the downside performance of the worst performing underlying stock at maturity and receive at maturity an amount equal to the stated principal amount times the share performance factor of the worst performing underlying stock.

In examples 4 and 5, the final share prices of both underlying stocks are below their respective downside threshold levels, and investors receive at maturity an amount equal to the stated principal amount *times* the share performance factor of the worst performing underlying stock. In example 4, the BA Stock has declined 60% from its initial share price to its final share price, while the FDX Stock has declined 65% from its initial share price to its final share price. Therefore, the payment at maturity equals the stated principal amount *times* the share performance factor of the FDX Stock, which is the worst performing underlying stock in this example. In example 5, the BA Stock has declined 70% from its initial share price to its final share price, while the FDX Stock has declined 65% from its initial share price. Therefore the payment at maturity equals the stated principal amount *times* the share performance factor of the BA Stock, which is the worst performing underlying stock in this example.

If the final share price of EITHER underlying stock is below its respective downside threshold level, you will be exposed to the downside performance of the worst performing underlying stock at maturity, and your payment at maturity will be less than 65% of the stated principal amount per security and could be zero.

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Risk Factors

The following is a list of certain key risk factors for investors in the securities. For further discussion of these and other risks, you should read the section entitled "Risk Factors" in the accompanying product supplement and prospectus. You should also consult with your investment, legal, tax, accounting and other advisers in connection with your investment in the securities.

§ **The securities do not guarantee the return of any principal.** The terms of the securities differ from those of ordinary debt securities in that they do not guarantee the return of any of the principal amount at maturity. If the securities have not been automatically redeemed prior to maturity and if the final share price of either underlying stock is less than its downside threshold level of 65% of its initial share price, you will be exposed to the decline in the closing price of the worst performing underlying stock, as compared to the initial share price, on a 1-to-1 basis, and you will receive for each security that you hold at maturity an amount equal to the stated principal amount *times* the share performance factor of the worst performing underlying stock. In this case, the payment at maturity will be less than 65% of the stated principal amount and could be zero. **You could lose up to your entire investment in the securities.**

§ **The securities do not provide for the regular payment of interest and may pay no interest over the entire term of the securities.** The terms of the securities differ from those of ordinary debt securities in that they do not provide for the regular payment of interest. Instead, the securities will pay a contingent quarterly coupon **but only if** the determination closing price of each underlying stock is **at or above** 65% of its respective initial share price, which we refer to as the respective downside threshold level, on the related observation date. If, on the other hand, the determination closing price of **either** underlying stock is lower than its downside threshold level on the relevant observation date for any interest period, we will pay no coupon on the applicable coupon payment date. It is possible that the determination closing price of either underlying stock could remain below the respective downside threshold level for extended periods of time or even throughout the entire 3-year term of the securities so that you will receive few or no contingent quarterly coupons. If you do not earn sufficient contingent coupons over the term of the securities, the overall return on the securities may be less than the amount that would be paid on a conventional debt security of ours of comparable maturity.

§ **You are exposed to the price risk of both underlying stocks, with respect to both the contingent quarterly coupons, if any, and the payment at maturity, if any.** Your return on the securities is not linked to a basket consisting of both underlying stocks. Rather, it will be contingent upon the independent performance of each underlying stock. Unlike an instrument with a return linked to a basket of underlying assets, in which risk is mitigated and diversified among all the components of the basket, you will be exposed to the risks related to both underlying stocks. Poor performance by **either** underlying stock over the term of the securities may negatively affect your return and will not be offset or mitigated by any positive performance by the other underlying stock. To receive **any** contingent quarterly coupons, **both** underlying stocks must close at or above their respective downside threshold levels on the applicable observation date. In addition, if **either** underlying stock has declined to below its respective downside threshold level as of the final observation date, you will be **fully exposed** to the decline in the worst performing underlying stock over the term of the securities on a 1-to-1 basis, even if the other underlying stock has appreciated. Under this scenario, the payment at maturity will be less than 65% of the stated principal amount and could be zero. Accordingly, your investment is subject to the price risk of both underlying stocks.

§ **The contingent coupon, if any, is based only on the determination closing prices of the underlying stocks on the related quarterly observation date at the end of the related interest period**. Whether the contingent coupon will be paid on any coupon payment date will be determined at the end of the relevant interest period based on the determination closing price of each underlying stock on the relevant quarterly observation date. As a result, you will not know whether you will receive the contingent coupon on any coupon payment date until near the end of the relevant interest period. Moreover, because the contingent coupon is based solely on the price of each underlying stock on quarterly observation dates, if the determination closing price of either underlying stock on any observation date is below the respective downside threshold level, you will receive no coupon for the related interest period, even if the price(s) of one or both underlying stocks were higher on other days during that interest period.

Morgan Stanley Finance LLC

Contingent Income Auto-Callable Securities due March 31, 2022, With 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the Common Stock of The Boeing Company and the Common Stock of FedEx Corporation

Principal at Risk Securities

§ **Investors will not participate in any appreciation in the price of either underlying stock.** Investors will not participate in any appreciation in the price of either underlying stock from its initial share price, and the return on the securities will be limited to the contingent quarterly coupon, if any, that is paid with respect to each observation date on which both determination closing prices are greater than or equal to their respective downside threshold levels, if any.

§ **The market price will be influenced by many unpredictable factors.** Several factors, many of which are beyond our control, will influence the value of the securities in the secondary market and the price at which MS & Co. may be willing to purchase or sell the securities in the secondary market. We expect that generally the level of interest rates available in the market and the prices of the underlying stocks on any day, including in relation to the respective downside threshold levels, will affect the value of the securities more than any other factors. Other factors that may influence the value of the securities include:

o the trading price and volatility (frequency and magnitude of changes in value) of the underlying stocks,

o whether the determination closing price of either underlying stock has been below its respective downside threshold level on any observation date,

o dividend rates on the underlying stocks,

o geopolitical conditions and economic, financial, political, regulatory or judicial events that affect the underlying stocks and which may affect the prices of the underlying stocks,

o the time remaining until the securities mature,

o interest and yield rates in the market,

- o the availability of comparable instruments,
- o the occurrence of certain events affecting the underlying stock that may or may not require an adjustment to the adjustment factor, and
- o any actual or anticipated changes in our credit ratings or credit spreads.

Some or all of these factors will influence the price that you will receive if you sell your securities prior to maturity. For example, you may have to sell your securities at a substantial discount from the stated principal amount of $1,000 per security if the price of either underlying stock at the time of sale is near or below its downside threshold level or if market interest rates rise.

The price of either or both underlying stocks may be, and have recently been, volatile, and we can give you no assurance that the volatility will lessen. The prices of either or both the underlying stocks may decrease and be below the respective downside threshold level(s) on each observation date so that you will receive no return on your investment or receive a payment at maturity that is less than 65% of the stated principal amount. There can be no assurance that the determination closing prices of both underlying stocks will be at or above their respective downside threshold levels on any observation date so that you will receive a coupon payment on the securities for the applicable interest period or, with respect to the final observation date, so that you do no suffer a significant loss on your initial investment in the securities. See “The Boeing Company Overview” and “FedEx Corporation Overview” below.

- § **The securities are subject to our credit risk, and any actual or anticipated changes to our credit ratings or credit spreads may adversely affect the market value of the securities.** You are dependent on our ability to pay all amounts due on the securities on each coupon payment date, upon automatic redemption and at maturity and therefore you are subject to our credit risk. The securities are not guaranteed by any other entity. If we default on our obligations under the securities, your investment would be at risk and you could lose some or all of your investment. As a result, the market value of the securities prior to maturity will be affected by changes in the market’s view of our creditworthiness. Any actual or anticipated decline in our credit ratings or increase in the credit spreads charged by the market for taking our credit risk is likely to adversely affect the market value of the securities.

- § **As a finance subsidiary, MSFL has no independent operations and will have no independent assets.** As a finance subsidiary, MSFL has no independent operations beyond the issuance and administration of its securities and will have no independent assets available for distributions to holders of MSFL securities if they make claims in respect of such securities in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank *pari passu* with all other unsecured, unsubordinated obligations of Morgan Stanley. Holders will have recourse only to a single claim against Morgan Stanley and its assets under the guarantee. Holders of securities issued by MSFL should accordingly assume that in any such proceedings they would not have any priority over and should be treated *pari passu* with the claims of other unsecured, unsubordinated creditors of Morgan Stanley, including holders of Morgan Stanley-issued securities.

§ **Reinvestment risk.** The term of your investment in the securities may be shortened due to the automatic early redemption feature of the securities. If the securities are redeemed prior to maturity, you will receive no more contingent quarterly coupons and may be forced to invest in a lower interest rate environment and may not be able to reinvest at comparable terms or returns. However, under no circumstances will the securities be redeemed in the first six months of the term of the securities.

§ **Investing in the securities is not equivalent to investing in the common stock of The Boeing Company or the common stock of FedEx Corporation.** Investors in the securities will not participate in any appreciation in the underlying stocks, and will not have voting rights or rights to receive dividends or other distributions or any other rights with respect to the underlying stocks.

§ **No affiliation with The Boeing Company or FedEx Corporation.** The Boeing Company and FedEx Corporation are not affiliates of ours, are not involved with this offering in any way, and have no obligation to consider your interests in taking any corporate actions that might affect the value of the securities. We have not made any due diligence inquiry with respect to The Boeing Company or FedEx Corporation in connection with this offering.

§ **We may engage in business with or involving The Boeing Company or FedEx Corporation without regard to your interests.** We or our affiliates may presently or from time to time engage in business with The Boeing Company or FedEx Corporation without regard to your interests and thus may acquire non-public information about The Boeing Company or FedEx Corporation. Neither we nor any of our affiliates undertakes to disclose any such information to you. In addition, we or our affiliates from time to time have published and in the future may publish research reports with respect to The Boeing Company or FedEx Corporation, which may or may not recommend that investors buy or hold the underlying stock(s).

§ **The antidilution adjustments the calculation agent is required to make do not cover every corporate event that could affect the underlying stocks.** MS & Co., as calculation agent, will adjust the adjustment factors for certain corporate events affecting the underlying stocks, such as stock splits and stock dividends, and certain other corporate actions involving the issuers of the underlying stocks, such as mergers. However, the calculation agent will not make an adjustment for every corporate event that cadated statements.

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COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND SEPTEMBER 30, 2011
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	Nine Months Ended September 30, 2012 (Unaudited)	Nine Months Ended September 30, 2011 (Unaudited)
Service revenue	$ 234,360	$ 226,406
Operating expenses:		
Network operations (including $367 and $388 of equity-based compensation expense, respectively, exclusive of depreciation and amortization shown separately below)	105,992	98,638
Selling, general, and administrative (including $5,425 and $5,619 of equity-based compensation expense, respectively)	60,217	57,450
Depreciation and amortization	46,353	44,714
Total operating expenses	212,562	200,802
Operating income	21,798	25,604
Interest income and other, net	926	610
Release of lease obligation (Note 2)		2,739
Interest expense	(26,998)	(25,673)
(Loss) income before income taxes	(4,274)	3,280
Income tax benefit (provision)	299	(1,162)
Net (loss) income	$ (3,975)	$ 2,118
Net (loss) income per common share:		
Basic and diluted net (loss) income per common share	$ (0.09)	$ 0.05
Dividends declared per common share	$ 0.10	
Weighted-average common shares - basic	45,411,958	45,100,004
Weighted-average common shares - diluted	45,411,958	45,669,751
Comprehensive (loss) income	$ (3,919)	$ 2,630

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

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COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND SEPTEMBER 30, 2011
(IN THOUSANDS)

	Nine months Ended September 30, 2012 (Unaudited)	Nine months Ended September 30, 2011 (Unaudited)
Cash flows from operating activities:		
Net cash provided by operating activities	$ 47,646	$ 48,521
Cash flows from investing activities:		
Purchases of property and equipment	(34,051)	(35,432)
Proceeds from dispositions of assets	120	2
Net cash used in investing activities	(33,931)	(35,430)
Cash flows from financing activities:		
Proceeds from issuance of senior secured notes, net		170,512
Purchases of common stock	(1,265)	(2,934)
Dividends paid	(4,537)	
Proceeds from exercises of stock options	330	371
Principal payments of capital lease obligations	(14,433)	(13,469)
Net cash (used in) provided by financing activities	(19,905)	154,480
Effect of exchange rates changes on cash	47	197
Net (decrease) increase in cash and cash equivalents	(6,143)	167,768
Cash and cash equivalents, beginning of period	238,207	56,283
Cash and cash equivalents, end of period	$ 232,064	$ 224,051
Supplemental disclosure of non-cash financing activities:		
Capital lease obligations incurred	$ 9,953	$ 36,102

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

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COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the business and recent developments:

Description of business

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

The Company offers on-net Internet access services exclusively through its own facilities, which run from its network to its customers premises. Because of its integrated network architecture, the Company is not dependent on local telephone companies to serve its on-net customers. The Company s on-net service consists of high-speed Internet access and IP connectivity ranging from 100 Megabits per second to 10 Gigabits per second of bandwidth. The Company offers its on-net services to customers located in buildings that are physically connected to its network. The Company provides its on-net Internet access services to net-centric and corporate customers. The Company s net-centric customers include bandwidth-intensive users such as universities, other Internet service providers, telephone companies, cable television companies and commercial content and application providers. These net-centric customers generally receive service in collocation facilities and in the Company s data centers. The Company operates data centers throughout North America and Europe that allow customers to collocate their equipment and access the Company s network. The Company s corporate customers are located in multi-tenant office buildings and typically include law firms, financial services firms, advertising and marketing firms and other professional services businesses.

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

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the unaudited condensed consolidated financial statements reflect all normal recurring adjustments that the Company considers necessary for the fair presentation of its results of operations and cash flows for the interim periods covered, and of the financial position of the Company at the date of the interim condensed consolidated balance sheet. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The operating results for interim periods are not necessarily indicative of the operating results for the entire year. While the Company believes that the disclosures are adequate to not make the information misleading, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in its 2011 annual report on Form 10-K.

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

Use of estimates

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

Foreign currency translation adjustment and comprehensive (loss) income

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

Financial instruments

At September 30, 2012 and December 31, 2011, the carrying amount of cash and cash equivalents, accounts receivable, prepaid and other current assets, accounts payable, and accrued expenses approximated fair value because of the short-term nature of these instruments. The Company measures its cash equivalents at amortized cost, which approximates fair value. Based upon the bid quoted (Level 2) prices at September 30, 2012 and December 31, 2011, the fair values of the Company s $92.0 million convertible senior notes were approximately $89.0 million and $82.3 million, respectively. Based upon the bid quoted prices (Level 2) at September 30, 2012 and December 31, 2011, the fair values of the Company s $175.0 million senior secured notes were approximately $189.2 million and $178.7 million, respectively.

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The Company was party to letters of credit totaling approximately $0.4 million as of September 30, 2012 and December 31, 2011. These letters of credit are secured by investments that are restricted and included in other assets.

Basic and diluted net (loss) income per common share

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

Shares of restricted stock are included in the computation of basic EPS as they vest and are included in diluted EPS, to the extent they are dilutive, using the treasury stock method. For the three and nine months ended September 30, 2012 and the three and nine months ended September 30, 2011, 1.8 million, 1.8 million, 0.9 million and 0.9 million unvested shares of restricted common stock, respectively, are not included in the computation of basic (loss) income per share, as the shares were not vested.

Using the if-converted method, the shares issuable upon conversion of the Company s 1.00% Convertible Senior Notes (the Convertible Notes) were anti-dilutive for the three and nine months ended September 30, 2012 and 2011. Accordingly, the impact has been excluded from the computation of diluted (loss) income per share. The Convertible Notes are convertible into shares of the Company s common stock at an initial conversion price of $49.18 per share, yielding 1.9 million shares subject to certain adjustments set forth in the indenture.

The Company computes the dilutive effect of outstanding options using the treasury stock method. For the three and nine months ended September 30, 2012 and the three and nine months ended September 30, 2011, options to purchase 0.2 million shares of common stock at weighted-average exercise prices of $14.33, $14.33, $17.28 and $17.24 per share, respectively, are not included in the computation of diluted (loss) income per share as the effect would be anti-dilutive. For the three and nine months ended September 30, 2012 and the three and nine months ended September 30, 2011, the Company s employees exercised options for 15,002, 33,504, 35,644 and 53,924 common shares, respectively.

The following details the determination of the diluted weighted average shares for the three and nine months ended September 30, 2011.

	Three Months Ended September 30, 2011	**Nine Months Ended September 30, 2011**
Weighted average common shares outstanding - basic	45,080,859	45,100,004
Dilutive effect of shares of restricted stock	406,480	483,231
Dilutive effect of stock options	72,633	86,516
Weighted average shares - diluted	45,559,972	45,669,751

Recent accounting pronouncements adopted

The Financial Accounting Standards Board (FASB) recently issued amendments to the presentation of comprehensive income which became effective for interim and annual periods beginning after December 15, 2011. The amendments eliminated the previous reporting option of displaying components of other comprehensive income within the statement of changes in stockholders equity. Under the new guidance, the Company is required to present either a single continuous statement of comprehensive income or an income statement immediately followed by a statement of comprehensive income. The Company elected to present a single continuous statement of comprehensive income.

In May 2011, the FASB issued ASU 2011-04 relating to fair value measurement (FASB ASC Topic 820), which amends current guidance to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company adopted this pronouncement for its fiscal year beginning January 1, 2012. The adoption of this pronouncement did not have a material effect on the Company s consolidated financial statements.

2. Property and equipment:

Depreciation and amortization expense related to property and equipment and capital leases was $15.6 million, $46.2 million, $15.1 million and $44.4 million for the three and nine months ended September 30, 2012 and the three and nine months ended 2011, respectively. The Company capitalized salaries and related benefits of employees working directly on the construction and build-out of its network of $1.8 million, $5.2 million, $1.8 million and $5.4 million for the three and nine months ended September 30, 2012 and the three and nine months ended September 30, 2011, respectively.

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Release of lease obligation

In the three months ended June 30, 2011, the requirements for extinguishment were met and the Company was released from an obligation under an IRU capital lease obligation totaling $2.7 million resulting in a gain. The IRU asset related to this obligation had been fully impaired in 2008 when it was determined that the IRU asset was no longer in use.

3. Long-term debt:

Senior secured notes

On January 26, 2011, the Company issued its 8.375% Senior Secured Notes (the Senior Notes) due February 15, 2018, for an aggregate principal amount of $175.0 million in a private offering for resale to qualified institutional buyers pursuant to SEC Rule 144A. The Senior Notes are secured and bear interest at 8.375% per annum. Interest is payable in cash semiannually in arrears on February 15 and August 15, of each year, beginning on August 15, 2011. The Company received net proceeds of approximately $170.5 million after deducting $4.5 million of issuance costs that are included in deposits and other assets. The Company intends to use the net proceeds from the Senior Notes for general corporate purposes and/or repurchases of its common stock or its Convertible Notes, or special or recurring dividends to its stockholders. In the three and nine months ended September 30, 2012 and the three and nine months ended September 30, 2011, the Company incurred approximately $3.8 million, $11.4 million, $3.7 million and $10.3 million, respectively, of interest expense related to its Senior Notes.

Convertible senior notes

In June 2007, the Company issued its Convertible Notes for an aggregate principal amount of $200.0 million in a private offering for resale to qualified institutional buyers pursuant to SEC Rule 144A. The Convertible Notes mature on June 15, 2027, are unsecured, and bear interest at 1.00% per annum. The Convertible Notes will rank equally with any future senior debt and senior to any future subordinated debt and will be effectively subordinated to all existing and future liabilities of the Company s subsidiaries and to any secured debt the Company may issue, to the extent of the value of the collateral. Interest is payable in cash semiannually in arrears on June 15 and December 15, of each year, beginning on December 15, 2007. The Company received net proceeds from the issuance of the Convertible Notes of approximately $195.1 million, after deducting the original issue discount of 2.25% and issuance costs. The discount and other issuance costs are being amortized to interest expense using the effective interest method through June 15, 2014, which is the earliest put date. In 2008, the Company purchased an aggregate of $108.0 million of face value of the Convertible Notes for $48.6 million in cash in a series of transactions.

The debt and equity components for the Convertible Notes were as follows (in thousands):

	September 30, 2012	December 31, 2011
Principal amount	$ 91,978	$ 91,978

Unamortized discount	(11,010)	(15,366)
Net carrying amount	80,968	76,612
Additional paid-in capital	74,933	74,933

At September 30, 2012, the unamortized discount had a remaining recognition period of twenty-one months. The amount of interest expense recognized and effective interest rate were as follows (in thousands):

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Contractual coupon interest	$ 230	$ 230	$ 690	$ 690
Amortization of discount and costs on Notes	1,486	1,365	4,367	4,010
Interest expense	$ 1,716	$ 1,595	$ 5,057	$ 4,700
Effective interest rate	8.7%	8.7%	8.7%	8.7%

4. Commitments and contingencies:

In the normal course of business the Company is involved in other legal activities and claims. Because such matters are subject to many uncertainties and the outcomes are not predictable with assurance, the liability related to these legal actions and claims cannot be determined with certainty. Management does not believe that such claims and actions will have a material impact on the Company s financial condition or results of operations.

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In accordance with the accounting guidance for contingencies, the Company accrues its estimate of a contingent liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Where it is probable that a liability has been incurred and there is a range of expected loss for which no amount in the range is more likely than any other amount, the Company accrues at the low end of the range. The Company reviews its accruals at least quarterly and adjusts them to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular matter. The Company has taken certain positions related to its obligations for leased circuit costs which could result in a loss of up to $1.1 million in excess of the amount accrued at September 30, 2012. Judgment is required in estimating the ultimate outcome of any dispute resolution process, as well as any other amounts that may be incurred to conclude the negotiations or settle any litigation. Actual results may differ from these estimates under different assumptions or conditions and such differences could be material.

Income taxes

In the normal course of business the Company takes positions on its tax returns that may be challenged by taxing authorities. The Company evaluates all uncertain tax positions to assess whether the position will more likely than not be sustained upon examination. If the Company determines that the tax position is more likely than not to be sustained, the Company records the amount of the benefit that is more likely than not to be realized when the tax position is settled. The liability for uncertain tax benefits, including accrued interest and penalties, is included in other long-term liabilities in the accompanying balance sheets and was approximately $1.6 million as of September 30, 2012 and $3.9 million as of December 31, 2011. During the three and nine months ended September 30, 2012 and the three and nine months ended September 30, 2011, the Company recognized approximately $39,000, $192,000, $17,000 and $54,000 in interest and penalties, respectively, related to its uncertain tax positions. During the nine months ended September 30, 2012, the Company reversed approximately $2.6 million of its liability (that included approximately $0.7 million of accrued interest and penalties) for uncertain tax positions due to the resolution of certain state income tax issues pursuant to the completion of an audit and from the expiration of certain statutes of limitation. The Company expects that its liability for uncertain tax positions will decrease by approximately an additional $0.8 million during the three months ended December 31, 2012 due to the expiration of certain statutes of limitation, however, actual changes in the liability for uncertain tax positions could be different than currently expected. If recognized, the total unrecognized tax benefits would affect the Company s effective income tax rate.

A reconciliation of the beginning and ending amount of unrecognized tax benefits (excluding interest and penalties) is as follows (in thousands):

	Three Months Ended September 30, 2012	**Three Months Ended September 30, 2011**	**Nine Months Ended September 30, 2012**	**Nine Months Ended September 30, 2011**
Beginning balance	$ 2,249	$ 698	$ 2,875	$ 698
Changes attributable to tax positions taken during a prior period			72	
Decreases attributable to settlements with taxing authorities	(1,029)		(1,727)	
Decreases attributable to lapse of statutes of limitation	(112)		(112)	
Ending balance	$ 1,108	$ 698	$ 1,108	$ 698

Incentive award plan

The Company has an award plan, the 2004 Incentive Award Plan, as amended (the Award Plan), under which grants of restricted stock and options for common stock are made. The Company has granted restricted shares under the Award Plan that are subject to certain performance conditions based upon the Company s operating metrics. The Company recorded approximately $0.0 million, $0.1 million, $0.2 million and $0.9 million of equity-based compensation expense related to the restricted shares subject to performance conditions in the three and nine months ended September 30, 2012 and 2011, respectively. There was no equity-based compensation expense recorded related to the restricted shares subject to performance conditions for 2012 since it is not considered probable that the performance conditions for 2012 will be met. In the first quarter of 2012, 62,400 restricted shares related to the performance conditions for 2011 vested since the performance conditions were met. Dividends are paid on shares of restricted stock when they vest.

On April 19, 2012, the Company s shareholders approved increasing the authorized shares under the Award Plan by 1.2 million shares. In the second quarter of 2012, the Company granted approximately 1.2 million restricted shares to its employees that will vest over three to four-year periods. These restricted shares were valued at approximately $22.0 million and will be recognized as equity-based compensation expense on a straight line basis over the service period.

Common stock buyback program

The Company s board of directors has approved $50.0 million of purchases of the Company s common stock under a buyback program (the Buyback Program). There is approximately $45.8 million remaining for purchases under the Buyback Program. The Company purchased approximately 0.1 million shares for approximately $1.3 million during the nine months ended September 30, 2012 and 0.2 million shares for approximately $2.9 million during the nine months ended September 30, 2011.

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Dividends on common stock

On August 7, 2012, the Company s board of directors approved the payment of a dividend of $0.10 per common share to holders of record on August 22, 2012. The dividend payment of $4.5 million was made on September 12, 2012 and was recorded as a reduction to retained earnings. On November 5, 2012, the Company s board of directors approved the payment of a dividend of $0.11 per common share estimated to be approximately $5.0 million - to holders of record on November 21, 2012 and payment to be made on December 12, 2012.

The payment of any future quarterly dividends will be at the discretion of the Company s board of directors and will be dependent upon the Company s financial position, results of operations, available cash, cash flow, capital requirements and other factors deemed relevant by the Company s board of directors.

5. Related party transactions:

Office lease

The Company s headquarters is located in an office building owned by Niobium LLC (a successor to 6715 Kenilworth Avenue Partnership). The two owners of the company are the Company s Chief Executive Officer, who has a 51% interest in the company and his wife who has a 49% interest. The Company paid $0.1 million, $0.4 million, $0.2 million and $0.5 million for the three and nine months ended September 30, 2012 and the three and nine months ended September 30, 2011, respectively, in rent and related costs (including taxes and utilities) to this company. In November 2012, the lease was extended an additional two years through August 31, 2015.

6. Segment information:

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Revenues				
North America	$ 63,608	$ 60,956	$ 187,745	$ 177,078
Europe	16,048	16,411	46,615	49,328
Total	$ 79,656	$ 77,367	$ 234,360	$ 226,406

	September 30, 2012	December 31, 2011

Long lived assets, net				
North America	$	225,740	$	225,598
Europe		80,944		82,445
Total	$	306,684	$	308,043

The majority of North American revenue consists of services delivered within the United States.

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

You should read the following discussion and analysis together with our condensed consolidated financial statements and related notes included in this report. The discussion in this report contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. The cautionary statements made in this report should be read as applying to all related forward-looking statements wherever they appear in this report. Our actual results could differ materially from those discussed here. Factors that could cause or contribute to these differences include, but are not limited to:

Future economic instability in the global economy, which could affect spending on Internet services; the impact of changing foreign exchange rates (in particular the Euro to USD and Canadian to USD exchange rates) on the translation of our non-USD denominated revenues, expenses, assets and liabilities; legal and operational difficulties in new markets; the imposition of a requirement that we contribute to the U. S. Universal Service Fund; changes in government policy and/or regulation, including rules regarding data protection and cyber security; increasing competition leading to lower prices for our services; our ability to attract new customers and to increase and maintain the volume of traffic on our network; the ability to maintain our Internet peering arrangements on favorable terms; our reliance on an equipment vendor, Cisco Systems Inc., and the potential for hardware or software problems associated with such equipment; the dependence of our network on the quality and dependability of third-party fiber providers; our ability to retain certain customers that comprise a significant portion of our revenue base; the management of network failures and/or disruptions; and outcomes in litigation as well as other risks discussed from time to time in our filings with the Securities and Exchange Commission, including, without limitation, our annual report on Form 10-K for the fiscal year ended December 31, 2011.

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General Overview

We are a leading facilities-based provider of low-cost, high-speed Internet access and IP communications services. Our network is specifically designed and optimized to transmit data using IP. We deliver our services to small and medium-sized businesses, communications service providers and other bandwidth-intensive organizations in North America and Europe. We recently began expansion into Japan.

Our on-net service consists of high-speed Internet access and IP connectivity ranging from 100 Megabits per second to 10 Gigabits per second of bandwidth. We offer our on-net services to customers located in buildings that are physically connected to our network. We provide on-net Internet access to net-centric and corporate customers. Our net-centric customers include bandwidth-intensive users such as universities, other Internet service providers, telephone companies, cable television companies and commercial content and application providers. These customers generally receive our service in collocation facilities and in our data centers. Our corporate customers are located in multi-tenant office buildings and typically include law firms, financial services firms, advertising and marketing firms and other professional services businesses.

Our off-net services are sold to businesses that are connected to our network primarily by means of last mile access service lines obtained from other carriers, primarily in the form of point-to-point TDM, POS, SDH and/or Carrier Ethernet circuits. Our non-core services, which consist primarily of legacy services of companies whose assets or businesses we have acquired, primarily include voice services (only provided in Toronto, Canada). We do not actively market these non-core services and expect the service revenue associated with them to continue to decline.

Our network is comprised of in-building riser facilities, metropolitan optical fiber networks, metropolitan traffic aggregation points and inter-city transport facilities. Our network is physically connected entirely through our facilities to over 1,830 buildings in which we provide our on-net services, including 1,288 multi-tenant office buildings. We also provide on-net services in carrier-neutral collocation facilities, Cogent controlled data centers and single-tenant office buildings. Because of our integrated network architecture, we are not dependent on local telephone companies to serve our on-net customers. We emphasize the sale of our on-net services because we believe we have a competitive advantage in providing these services and these services generate gross profit margins that are greater than the gross profit margins on our off-net services.

We believe our key growth opportunity is provided by our high-capacity network, which provides us with the ability to add a significant number of customers to our network with minimal direct incremental costs. Our focus is to add customers to our network in a way that maximizes its use and at the same time provides us with a profitable customer mix. We are responding to this opportunity by increasing our sales and marketing efforts including increasing our number of sales representatives and expanding our network to locations that we believe can be economically integrated and represent significant concentrations of Internet traffic. One of our keys to developing a profitable business will be to carefully match the cost of extending our network to reach new customers with the revenue expected to be generated by those customers. In addition, we may add customers to our network through strategic acquisitions.

We believe some of the most important trends in our industry are the continued long-term growth in Internet traffic and a decline in Internet access prices on a per megabit basis within carrier neutral data centers and relatively flat pricing per connection to our corporate customers. The effective price per megabit for our corporate customers is declining as the bandwidth utilization of corporate connections increases. As Internet traffic continues to grow and prices per unit of traffic continue to decline, we believe we can continue to load our network and gain market share from less efficient network operators. However, continued erosion in Internet access prices will likely have a negative impact on the rate at which we can increase our revenues and our profitability. Our revenue may also be negatively affected if we are unable to grow our

Internet traffic or if the rate of growth of Internet traffic does not offset the expected decline in per unit pricing. We do not know if Internet traffic will increase or decrease, or the rate at which it will grow or decrease. Changes in Internet traffic will be a function of the number of users, the applications for which the Internet is used, the pricing of Internet services, and other factors.

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

Due to our strategic acquisitions of network assets and equipment, we believe we are well positioned to grow our revenue base. We continue to purchase and deploy network equipment to parts of our network to maximize the utilization of our assets and to expand and increase the capacity of our network. Our future capital expenditures will be based primarily on the expansion of our network, the addition of on-net buildings and the concentration and growth of our customer base. We plan to continue to expand our network and to increase the number of on-net buildings we serve. Many factors can affect our ability to add buildings to our network. These factors include the willingness of building owners to grant us access rights, the availability of optical fiber networks to serve those buildings, and equipment availability.

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Three Months Ended September 30, 2012 Compared to the Three Months Ended September 30, 2011

The following summary table presents a comparison of our results of operations for the three months ended September 30, 2012 and 2011 with respect to certain key financial measures. The comparisons illustrated in the table are discussed in greater detail below.

	Three months ended September 30, 2012	2011	Percent Change
	(in thousands)		
Service revenue	$ 79,656	$ 77,367	3.0%
On-net revenue	58,138	58,697	(1.0)%
Off-net revenue	20,912	17,968	16.4%
Non-core revenue	606	702	(13.7)%
Network operations expenses (1)	36,375	33,497	8.6%
Selling, general, and administrative expenses (2)	17,109	17,202	(0.5)%
Equity-based compensation expense	2,530	1,904	32.9%
Depreciation and amortization expenses	15,610	15,188	2.8%
Interest expense	9,015	8,953	0.7%
Income tax benefit (provision)	492	(423)	(216.3)%

(1) Excludes equity-based compensation expenses of $166 and $122 in the three months ended September 30, 2012 and 2011, respectively, which, if included would have resulted in a period-to-period change of 8.7%.

(2) Excludes equity-based compensation expenses of $2,364 and $1,782 in the three months ended September 30, 2012 and 2011, respectively, which, if included would have resulted in a period-to-period change of 2.6%.

Service Revenue. Our service revenue increased 3.0% to $79.7 million for the three months ended September 30, 2012 from $77.4 million for the three months ended September 30, 2011. The impact of exchange rates resulted in a decrease of revenues for the three months ended September 30, 2012 of approximately $2.2 million. All foreign currency comparisons herein reflect our third quarter 2012 results translated at the average foreign currency exchange rates for the third quarter of 2011. For the three months ended September 30, 2012 and 2011, on-net, off-net and non-core revenues represented 73.0%, 26.3% and 0.7% and 75.9%, 23.2% and 0.9% of our service revenue, respectively. In January 2012, our largest (on-net and net-centric) customer was indicted by the U.S. government and as a result our on-net service to this customer and the associated revenue terminated in January 2012. This customer accounted for approximately 5.5% of each of our 2011 and third quarter 2011 revenues. The loss of this net-centric customer negatively impacted our revenue growth rate from the third quarter of 2011 to the third quarter of 2012 and will negatively impact our revenue growth rate from 2011 to 2012.

Revenues from our corporate and net centric customers represented 52.3% and 47.7% of total service revenue, respectively, for the three months ended September 30, 2012 and represented 48.5% and 51.5% of total service revenue, respectively, for the three months ended September 30, 2011. Revenues from corporate customers increased 11.0% to $41.7 million for the three months ended September 30, 2012 from $37.6 million for the three months ended September 30, 2011. Revenues from our net-centric customers decreased 4.7% to $38.0 million for the three months ended September 30, 2012 from $39.8 million for the three months ended September 30, 2011. As noted above, the loss of our largest net-centric customer in January 2012 and the negative impact of foreign exchange negatively impacted our net-centric revenue growth rate from the third quarter of 2011 to the third quarter of 2012 and are expected to negatively impact our net-centric revenue growth rate from 2011 to 2012. The majority of revenues from our European operations are net-centric revenues and as a result the impact of foreign exchange has a greater impact on our net-centric revenues as compared to our corporate revenues.

Our on-net revenues were $58.1 million for the three months ended September 30, 2012 and $58.7 million for the three months ended September 30, 2011. We increased the number of our on-net customer connections by 17.5% to approximately 28,800 at September 30, 2012 from approximately 24,500 at September 30, 2011. The loss of our largest on-net customer in January 2012 and the negative impact of foreign exchange negatively impacted our on-net revenue growth rate from the third quarter of 2011 to the third quarter of 2012 and are expected to negatively impact our on-net revenue growth rate from 2011 to 2012. Additionally, our on-net customer connections increased at a greater rate than our on-net revenues due to a decline in our average revenue per on-net customer connection, resulting primarily from our net-centric customers. This decline is partly attributed to volume and term based pricing discounts. Additionally, our on-net customers who cancel their service from our installed base of customers, in general, have greater average revenue per connection than our new on-net customers. These trends and events resulted in a reduction to our average revenue per on-net connection.

Our off-net revenues increased 16.4% to $20.9 million for the three months ended September 30, 2012 from $18.0 million for the three months ended September 30, 2011. Our off-net revenues increased as we increased the number of our off-net customer connections by 10.2% to approximately 4,260 at September 30, 2012 from approximately 3,860 at September 30, 2011. Our off-net revenues increased at a greater rate than our off-net customer connections due to an increase in our average revenue per off-net customer connection. Our off-net customers who cancel their service with us, in general, have a lower average revenue per connection than our new off-net customers who generally purchase higher-bandwidth connections which carry a higher revenue per connection.

Our non-core revenues decreased 13.7% to $0.6 million for the three months ended September 30, 2012 from $0.7 million for the three months ended September 30, 2011. The number of our non-core customer connections decreased 17.0% to approximately 480 at September 30, 2012 from approximately 580 at September 30, 2011. We do not actively market these acquired non-core services and expect that the service revenue associated with them will continue to decline.

Network Operations Expenses. Our network operations expenses, excluding equity-based compensation expense, increased 8.6% to $36.4 million for the three months ended September 30, 2012 from $33.5 million for the three months ended September 30, 2011. The increase is primarily attributable to an increase in costs related to our network and facilities expansion activities and the increase in our off-net revenues. When we provide off-net revenues we also assume the cost of the associated tail-circuits. The impact of exchange rates resulted in a decrease of network operations expenses for the three months ended September 30, 2012 of approximately $1.0 million.

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Selling, General, and Administrative (SG&A) Expenses. Our SG&A expenses, excluding equity-based compensation expense, decreased 0.5% to $17.1 million for the three months ended September 30, 2012 from $17.2 million for the three months ended September 30, 2011. There were no significant variations in the components of our SG&A expenses from the three months ended September 30, 2012 to the three months ended September 30, 2011. The impact of exchange rates resulted in a decrease of SG&A expenses for the three months ended September 30, 2012 of approximately $0.5 million.

Equity-based Compensation Expense. Equity-based compensation expense results from grants of restricted stock and stock options. Equity-based compensation expense was $2.5 million for the three months ended September 30, 2012 and $1.9 million for the three months ended September 30, 2011. The impact of exchange rates had no material impact on equity-based compensation expense for the three months ended September 30, 2012.

In the second quarter of 2012, we granted approximately 1.2 million restricted shares to our employees that will vest over three to four-year periods. These restricted shares had an aggregate grant date fair value of approximately $22.0 million and will be recognized as equity-based compensation expense on a straight line basis over the service period.

Depreciation and Amortization Expenses. Our depreciation and amortization expense increased 2.8% to $15.6 million for the three months ended September 30, 2012 from $15.2 million for the three months ended September 30, 2011. The increase is primarily due to the depreciation expense associated with recently deployed fixed assets. The impact of exchange rates resulted in a decrease of depreciation and amortization expense for the three months ended September 30, 2012 of approximately $0.3 million.

Interest Expense. Interest expense results from interest incurred on our $175.0 million of 8.375% Senior Secured Notes (the Senior Notes) issued on January 26, 2011, our $92.0 million of 1.00% convertible senior notes (the Convertible Notes) issued in June 2007, and interest on our capital lease obligations. Our interest expense was $9.0 million for the three months ended September 30, 2012 and $9.0 million for the three months ended September 30, 2011. The impact of exchange rates resulted in a decrease of interest expense for the three months ended September 30, 2012 of approximately $0.2 million related to interest expense on our capital lease obligations.

Income Tax Benefit (Provision). Our income tax benefit was $0.5 million for the three months ended September 30, 2012 and our income tax provision was $0.4 million for the three months ended September 30, 2011. Our income tax provision for the three months ended September 30, 2012 and the three months ended September 30, 2011 includes provisions for U.S. state and foreign income taxes. Additionally, during the three months ended September 30, 2012 we reversed approximately $1.6 million of a liability (that included approximately $0.5 million of accrued interest and penalties) for an uncertain tax positions due to the expiration of certain statutes of limitation and settling of state income tax audits resulting in a net income tax benefit.

Buildings On-net. As of September 30, 2012 and 2011, we had a total of 1,832 and 1,707 on-net buildings connected to our network, respectively.

Nine Months Ended September 30, 2012 Compared to the Nine Months Ended September 30, 2011

The following summary table presents a comparison of our results of operations for the nine months ended September 30, 2012 and 2011with respect to certain key financial measures. The comparisons illustrated in the table are discussed in greater detail below.

	Nine months ended September 30, 2012	2011	Percent Change
	(in thousands)		
Service revenue	$ 234,360	$ 226,406	3.5%
On-net revenue	172,207	173,484	(0.7)%
Off-net revenue	60,281	50,704	18.9%
Non-core revenue	1,872	2,218	(15.6)%
Network operations expenses (1)	105,625	98,250	7.5%
Selling, general, and administrative expenses (2)	54,792	51,831	5.7%
Equity-based compensation expense	5,792	6,007	(3.6)%
Depreciation and amortization expenses	46,353	44,714	3.7%
Interest expense	26,998	25,673	5.2%
Release of lease obligation		2,739	(100.0)%
Income tax benefit (provision)	299	(1,162)	(125.7)%

(1) Excludes equity-based compensation expenses of $367 and $388 in the nine months ended September 30, 2012 and 2011, respectively, which, if included would have resulted in a period-to-period change of 7.5%.

(2) Excludes equity-based compensation expenses of $5,425 and $5,619 in the nine months ended September 30, 2012 and 2011, respectively, which, if included would have resulted in a period-to-period change of 4.8%.

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Service Revenue. Our service revenue increased 3.5% to $234.4 million for the nine months ended September 30, 2012 from $226.4 million for the nine months ended September 30, 2011. The impact of exchange rates resulted in a decrease of revenues for the nine months ended September 30, 2012 of approximately $5.1 million. All foreign currency comparisons herein reflect our results for the nine months ended September 30, 2012 translated at the average foreign currency exchange rates for the nine months ended September 30, 2011. For the nine months ended September 30, 2012 and 2011, on-net, off-net and non-core revenues represented 73.5%, 25.7% and 0.8% and 76.6%, 22.4% and 1.0% of our service revenue, respectively. In January 2012, our largest (on-net and net-centric) customer was indicted by the U.S. government and as a result our on-net service to this customer and the associated revenue terminated in January 2012. This customer accounted for approximately 5.5% of our revenues for 2011 and for the nine months ended September 30, 2011. The loss of this net-centric customer negatively impacted our revenue growth rate from the first nine months of 2011 to the first nine months of 2012 and will negatively impact our revenue growth rate from 2011 to 2012.

Revenues from our corporate and net-centric customers represented 51.6% and 48.4% of total service revenue, respectively, for the nine months ended September 30, 2012 and represented 48.8% and 51.2% of total service revenue, respectively, for the nine months ended September 30, 2011. Revenues from corporate customers increased 9.3% to $120.9 million for the nine months ended September 30, 2012 from $110.6 million for the nine months ended September 30, 2011. Revenues from our net-centric customers decreased 2.0% to $113.5 million for the nine months ended September 30, 2012 from $115.8 million for the nine months ended September 30, 2011. As noted above, the loss of our largest net-centric customer in January 2012 and the negative impact of foreign exchange negatively impacted our net-centric revenue growth rate from the first nine months of 2011 to the first nine months of 2012 and are expected to negatively impact our net-centric revenue growth rate from 2011 to 2012. The majority of revenues from our European operations are net-centric revenues and as a result the impact of foreign exchange has a greater impact on our net-centric revenues as compared to our corporate revenues.

Our on-net revenues were $172.2 million for the nine months ended September 30, 2012 and $173.5 million for the nine months ended September 30, 2011. We increased the number of our on-net customer connections by 17.5% to approximately 28,800 at September 30, 2012 from approximately 24,500 at September 30, 2011. The loss of our largest on-net customer in January 2012 and the negative impact of foreign exchange negatively impacted our on-net revenue growth rate from the first nine months of 2011 to the first nine months of 2012 and are expected to negatively impact our on-net revenue growth rate from 2011 to 2012. Additionally, our on-net customer connections increased at a greater rate than our on-net revenues due to a decline in our average revenue per on-net customer connection, primarily from our net-centric customers. This decline is partly attributed to volume and term based pricing discounts. Additionally, our on-net customers who cancel their service from our installed base of customers, in general, have greater average revenue per connection than our new on-net customers. These trends and events resulted in a reduction to our average revenue per on-net connection.

Our off-net revenues increased 18.9% to $60.3 million for the nine months ended September 30, 2012 from $50.7 million for the nine months ended September 30, 2011. Our off-net revenues increased as we increased the number of our off-net customer connections by 10.2% to approximately 4,260 at September 30, 2012 from approximately 3,860 at September 30, 2011. Our off-net revenues increased at a greater rate than our off-net customer connections due to an increase in our average revenue per off-net customer connection. Our off-net customers who cancel their service, in general, have a lower average revenue per connection than our new off-net customers who generally purchase higher-bandwidth connections which carry a higher revenue per connection.

Our non-core revenues decreased 15.6% to $1.9 million for the nine months ended September 30, 2012 from $2.2 million for the nine months ended September 30, 2011. The number of our non-core customer connections decreased 17.0% to approximately 480 at September 30, 2012 from approximately 580 at September 30, 2011. We do not actively market these acquired non-core services and expect that the service revenue associated with them will continue to decline.

Network Operations Expenses. Our network operations expenses, excluding equity-based compensation expense, increased 7.5% to $105.6 million for the nine months ended September 30, 2012 from $98.3 million for the nine months ended September 30, 2011. The increase is primarily attributable to an increase in costs related to our network and facilities expansion activities and the increase in our off-net revenues. When we provide off-net revenues we also assume the cost of the associated tail-circuits. The impact of exchange rates resulted in a decrease of network operations expenses for the nine months ended September 30, 2012 of approximately $2.3 million.

Selling, General, and Administrative (SG&A) Expenses. Our SG&A expenses, excluding equity-based compensation expense, increased 5.7% to $54.8 million for the nine months ended September 30, 2012 from $51.8 million for the nine months ended September 30, 2011. SG&A expenses increased primarily from the increase in salaries and related costs required to support our expanding sales and marketing efforts and to an increase in bad debt expense of approximately $1.5 million, primarily related to the loss of our largest customer in January 2012. The impact of exchange rates resulted in a decrease of SG&A expenses for the nine months ended September 30, 2012 of approximately $1.3 million.

Equity-based Compensation Expense. Equity-based compensation expense results from grants of restricted stock and stock options. Equity-based compensation expense decreased 3.6% to $5.8 million for the nine months ended September 30, 2012 from $6.0 million for the nine months ended September 30, 2011. Equity-based compensation decreased from the vesting of previous grants and a reduction in equity-based compensation expense related to shares subject to performance conditions. The impact of exchange rates had no material impact on equity-based compensation expense for the nine months ended September 30, 2012.

In the second quarter of 2012, we granted approximately 1.2 million restricted shares to our employees that will vest over three to four-year periods. These restricted shares had an aggregate grant date fair value of approximately $22.0 million and will be recognized as equity-based compensation expense on a straight line basis over the service period.

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Depreciation and Amortization Expenses. Our depreciation and amortization expense increased 3.7% to $46.4 million for the nine months ended September 30, 2012 from $44.7 million for the nine months ended September 30, 2011. The increase is primarily due to the depreciation expense associated with recently deployed fixed assets. The impact of exchange rates resulted in a decrease of depreciation and amortization expense for the nine months ended September 30, 2012 of approximately $0.7 million.

Interest Expense. Interest expense results from interest incurred on our $175.0 million of 8.375% Senior Secured Notes (the Senior Notes) issued on January 26, 2011, our $92.0 million of 1.00% convertible senior notes (the Convertible Notes) issued in June 2007, and interest on our capital lease obligations. Our interest expense increased 5.2% to $27.0 million for the nine months ended September 30, 2012 from $25.7 million for the nine months ended September 30, 2011. The increase is attributed to interest expense related to the issuance of our Senior Notes since the Senior Notes were outstanding for only a portion of the nine months ended September 30, 2011 and to an increase in our capital lease obligations. The impact of exchange rates resulted in a decrease of interest expense for the nine months ended September 30, 2012 of approximately $0.5 million related to interest expense on our capital lease obligations.

Release of Lease Obligation-Gain. In the nine months ended September 30, 2011 the requirements for extinguishment were met and we were released from an obligation under an IRU capital lease obligation totaling $2.7 million resulting in a gain. The IRU asset related to this obligation had been fully impaired in 2008 when it was determined that the IRU asset was no longer in use.

Income Tax Benefit (Provision). Our income tax benefit was $0.3 million for the nine months ended September 30, 2012 and our income tax provision was $1.2 for the nine months ended September 30, 2011. Our income tax provision for the nine months ended September 30, 2012 and nine months ended September 30, 2011 includes foreign and U. S. state income taxes. Additionally, during the nine months ended September 30, 2012 we reversed approximately $2.6 million (that included approximately $0.7 million of accrued interest and penalties) of a liability for an uncertain tax position due to the resolution of certain state income tax issues pursuant to the completion of state income tax audits and from the expiration of certain statutes of limitation resulting in a net income tax benefit.

Buildings On-net. As of September 30, 2012 and 2011, we had a total of 1,832 and 1,707 on-net buildings connected to our network, respectively.

Liquidity and Capital Resources

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

Cash Flows

The following table sets forth our consolidated cash flows for the nine months ended September 30, 2012 and nine months ended September 30, 2011.

(in thousands)	Nine months ended September 30, 2012	2011
Net cash provided by operating activities	$ 47,646	$ 48,521
Net cash used in investing activities	(33,931)	(35,430)
Net cash (used in) provided by financing activities	(19,905)	154,480
Effect of exchange rates on cash	47	197
Net (decrease) increase in cash and cash equivalents during period	$ (6,143)	$ 167,768

Net Cash Provided by Operating Activities. Our primary sources of operating cash are receipts from our customers who are billed on a monthly basis for our services. Our primary uses of operating cash are payments made to our vendors, employees and interest payments made to our capital lease vendors and our note holders. Net cash provided by operating activities was $47.6 million for the nine months ended September 30, 2012 compared to net cash provided by operating activities of $48.5 million for the nine months ended September 30, 2011. Operating activities for the nine months ended September 30, 2012 included a total of $14.7 million of semi-annual interest payments on our Senior Notes, described further below. Operating activities for the nine months ended September 30, 2011 included the initial $8.1 million interest payment on our Senior Notes that was made in August 2011. Our future operating cash flow will be impacted by the semi-annual interest payments on our Senior Notes.

Net Cash Used In Investing Activities. Net cash used in investing activities was $33.9 million for the nine months ended September 30, 2012 and $35.4 million for the nine months ended September 30, 2011. Our primary use of investing cash is for purchases of property and equipment. These amounts were $34.1 million and $35.4 million for the nine months ended September 30, 2012 and 2011, respectively. The changes in purchases of property and equipment are primarily due to the timing and scope of our network expansion activities including geographic expansion and adding buildings to our network.

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Net Cash (Used In) Provided By Financing Activities. Net cash used in financing activities was $19.9 million for the nine months ended September 30, 2012. Net cash provided by financing activities was $154.5 million for the nine months ended September 30, 2011. Our primary use of financing cash is for principal payments made under our capital lease obligations. These amounts were $14.4 million and $13.5 million for the nine months ended September 30, 2012 and 2011, respectively. Additionally, financing activities include amounts paid under our stock buyback program and our dividend payments. During the nine months ended September 30, 2012 and 2011 we paid approximately $1.3 million and $2.9 million, respectively, for purchases of our common stock. During the three months ended September 30, 2012 we paid approximately $4.5 million for our third quarter 2012 dividend on our common stock. In January 2011, we issued our 8.375% Senior Notes due February 15, 2018, for an aggregate principal amount of $175.0 million and we received net proceeds of approximately $170.5 million after deducting $4.5 million of issuance costs.

Cash Position and Indebtedness

Our total indebtedness, net of discount, at September 30, 2012 was $387.3 million and our total cash and cash equivalents were $232.1 million. Our total indebtedness at September 30, 2012 includes $131.3 million of capital lease obligations for dark fiber primarily under long term IRU agreements.

Senior Secured Notes

In January 2011, we issued our Senior Notes due February 15, 2018, for an aggregate principal amount of $175.0 million in a private offering for resale to qualified institutional buyers pursuant to SEC Rule 144A. The Senior Notes are secured and bear interest at 8.375% per annum. Interest is payable in cash semiannually in arrears on February 15 and August 15, of each year, beginning on August 15, 2011. We received net proceeds of approximately $170.5 million after deducting $4.5 million of issuance costs. We intend to use the net proceeds from the Senior Notes for general corporate purposes and/or repurchases of our common stock or our Convertible Notes or special or recurring dividends to our stockholders.

The Senior Notes are fully guaranteed on a senior secured basis, jointly and severally, by each of our existing domestic and future material domestic subsidiaries, subject to certain exceptions and permitted liens. Under certain circumstances, our subsidiaries may be released from these guarantees without the consent of the holders of the Senior Notes. The Senior Notes and the guarantees are secured by (i) first priority liens on substantially all of our and our guarantors assets, (ii) all of the equity interests in any of our domestic subsidiaries and (iii) 65% of the equity interests of our first-tier foreign subsidiaries held by us and our guarantors. The Senior Notes and the guarantees represent our and the guarantors senior secured obligations and effectively rank equally and ratably with all of our and the guarantors existing and future first lien obligations, to the extent of the value of the collateral securing such indebtedness, subject to permitted liens; are structurally subordinated to any existing and future indebtedness and liabilities of non-guarantor subsidiaries and rank equally in right of payment with all of our and the guarantors existing and future senior indebtedness.

We may redeem the Senior Notes, in whole or in part, at any time prior to February 15, 2015 at a price equal to 100% of the principal amount plus a make-whole premium, plus accrued and unpaid interest to the date of redemption. The make-whole premium means, with respect to a note at any date of redemption, the greater of (i) 1.0% of the then-outstanding principal amount of such note and (ii) the excess of (A) the present value at such date of redemption of (1) the redemption price of such note at February 15, 2015, plus (2) all remaining required interest payments due on such note through February 15, 2015 (excluding accrued but unpaid interest to the date of redemption), computed using a discount rate equal to the Treasury Rate as of such date of redemption plus 50 basis points, over (B) the then-outstanding principal amount of such note. We may also redeem the Senior Notes, in whole or in part, at any time on or after February 15, 2015 at the applicable redemption prices specified under the indenture governing the Senior Notes plus accrued and unpaid interest, if any, to the date of redemption. The redemption prices (as a percentage of the principal amount) are 104.118% during the 12-month period beginning on February 15, 2015, 102.094% during the 12-month period beginning on February 15, 2016 and 100.0% during the 12-month period beginning on February 15, 2017 and thereafter. In addition, we may redeem up to 35% of the Senior Notes before February 15, 2014 with the net cash proceeds from certain equity offerings at a redemption price of 108.375% of the principal amount plus accrued and unpaid interest. If we experience specific kinds of changes of control, we must offer to repurchase all of the Senior Notes at a purchase price of 101.0% of their principal amount, plus accrued and unpaid interest, if any, to the repurchase date.

We must offer to purchase with the proceeds of certain sales of assets totaling $20.0 million or greater, Senior Notes at 100% of the principal value of the notes plus accrued and unpaid interest. In the event of default, as defined in the indenture, holders of not less than 25.0% in aggregate principal amount of the Senior Notes then outstanding may declare all unpaid principal and accrued interest on all Senior Notes to be due and immediately payable.

The indenture governing the Senior Notes, among other things, limits our ability and our guarantors ability to incur indebtedness; to pay dividends or make other distributions; to make certain investments and other restricted payments; to create liens; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; to incur restrictions on the ability of a subsidiary to pay dividends or make other payments; and to enter into certain transactions with our affiliates. Our payment of dividends, stock buybacks and certain other uses of our cash are limited to an aggregate amount calculated pursuant to the terms of the indenture.

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Convertible Senior Notes

In June 2007, we issued our Convertible Notes due June 15, 2027, in a private offering for resale to qualified institutional buyers pursuant to SEC Rule 144A. The Convertible Notes are unsecured and bear interest at 1.00% per annum. The Convertible Notes will rank equally with any future senior debt and senior to any future subordinated debt and are effectively subordinated to all of our subsidiary s existing and future liabilities and to any secured debt that we may issue to the extent of the value of the collateral. Interest is payable in cash semiannually in arrears on June 15 and December 15, of each year, beginning on December 15, 2007.

The $92.0 million Convertible Notes are convertible into shares of our common stock at an initial conversion price of $49.18 per share, or 20.3355 shares for each $1,000 principal amount of Convertible Notes, subject to adjustment for certain events as set forth in the indenture. Upon conversion of the Convertible Notes, we will have the right to deliver shares of our common stock, cash or a combination of cash and shares of our common stock. The Convertible Notes are convertible (i) during any fiscal quarter after the fiscal quarter ending September 30, 2007, if the closing sale price of our common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price in effect on the last trading day of the immediately preceding fiscal quarter, or (ii) specified corporate transactions occur, or (iii) the trading price of the Convertible Notes falls below a certain threshold, or (iv) if we call the Convertible Notes for redemption, or (v) on or after April 15, 2027, until maturity. In addition, following specified corporate transactions, we will increase the conversion rate for holders who elect to convert Convertible Notes in connection with such corporate transactions, provided that in no event may the shares issued upon conversion, as a result of adjustment or otherwise, result in the issuance of more than 35.5872 common shares per $1,000 principal amount. The Convertible Notes include an Irrevocable Election of Settlement whereby we may choose, in our sole discretion, and without the consent of the holders of the Convertible Notes, to waive our right to settle the conversion feature in either cash or stock or in any combination, at our option.

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

Contractual Obligations and Commitments

There have been no material changes to our contractual obligations and commitments included in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations of our annual report on Form 10-K for the year ended December 31, 2011.

Dividends on Common Stock

On August 7, 2012, our board of directors approved payment of a dividend of $0.10 per common share. The dividend payment totaling $4.5 million was paid on September 12, 2012 to holders of record as of August 22, 2012. On November 5, 2012, our board of directors approved the payment of a dividend of $0.11 per common share estimated to be approximately $5.0 million - to holders of record on November 21, 2012 with payment to be made on December 12, 2012.

The payment of any future quarterly dividends will be at the discretion of our board of directors and will be dependent upon our financial position, results of operations, available cash, cash flow, capital requirements and other factors deemed relevant by our board of directors.

Future Capital Requirements

We believe that our cash on hand and cash generated from our operating activities will be adequate to meet our working capital, capital expenditure, debt service, dividend payments and other cash requirements if we execute our business plan.

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

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Significant Estimates

Management believes that as of September 30, 2012, there have been no material changes to our critical accounting policies and significant estimates from those listed in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations of our annual report on Form 10-K for the year ended December 31, 2011.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Management believes that as of September 30, 2012, there have been no material changes to our exposures to market risk from those disclosed in Item 7A Quantitative and Qualitative Disclosures About Market Risk, of our annual report on Form 10-K for the year ended December 31, 2011.

ITEM 4. CONTROLS AND PROCEDURES.

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

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

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are involved in legal proceedings in the normal course of our business that we do not expect to have a material impact on our operations or results of operations. Note 4 of our interim condensed consolidated financial statements includes information on these proceedings.

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

Our Board of Directors had authorized a plan to permit the repurchase of up to $50.0 million of our common stock in negotiated and open market transactions. As of September 30, 2012, we had purchased 306,940 shares of our common stock pursuant to these authorizations for an aggregate of $4.2 million; approximately $45.8 million remained available for such negotiated and open market transactions concerning our common stock. We may purchase shares from time to time depending on market, economic, and other factors. The authorization will continue through February 28, 2013.

The following table summarizes our common stock repurchases during the third quarter of 2012 made pursuant to this authorization. During the quarter, we did not purchase shares outside of this program, and all purchases were made by or on behalf of the Company and not by any affiliated purchaser (as defined by Rule 10b-18 of the Securities Exchange Act of 1934).

Issuer Purchases of Equity Securities

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or (Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1-31, 2012	0	$ 0	0	$ 45,766,777
August 1-31, 2012	0	$ 0	0	$ 45,766,777
September 1-30, 2012	0	$ 0	0	$ 45,766,777

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable

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ITEM 6. EXHIBITS.

(a) Exhibits

Exhibit Number	Description
10.1	Extension of lease for headquarters space to August 31, 2015, by and between Niobium LLC (successor to 6715 Kenilworth Avenue Partnership) and Cogent Communications, Inc. dated as of November 7, 2012
31.1	Certification of Chief Executive Officer (filed herewith)
31.2	Certification of Chief Financial Officer (filed herewith)
32.1	Certification of Chief Executive Officer (furnished herewith)
32.2	Certification of Chief Financial Officer (furnished herewith)
101.1	The following materials from the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in Extensible Business Reporting Language (XBRL), include: (i) the Condensed Consolidated Statements of Comprehensive Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) related notes (furnished herewith).

SIGNATURES

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

Date: November 7, 2012	**COGENT COMMUNICATIONS GROUP, INC.**	
	By:	/s/ David Schaeffer Name: David Schaeffer Title: Chairman of the Board and Chief Executive Officer
Date: November 7, 2012	By:	/s/ Thaddeus G. Weed Name: Thaddeus G. Weed Title: Chief Financial Officer (Principal Accounting Officer)

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