# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 10-Q

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

**For the Quarterly Period Ended September 30, 2024**

**OR**

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

**Commission File No. 000-51829**

# COGENT COMMUNICATIONS HOLDINGS, INC.
(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| **Delaware**<br>(State or Other Jurisdiction of Incorporation or Organization) | **46-5706863**<br>(I.R.S. Employer Identification Number) |

**2450 N Street N.W.**
**Washington, D.C. 20037**
(Address of Principal Executive Offices and Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Trading Symbol | Name of Each Exchange on which Registered |
|---|---|---|
| Common Stock, par value $0.001 per share | CCOI | NASDAQ Global Select Market |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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

Common Stock, $.001 par value 49,024,304 shares outstanding as of October 31, 2024

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## PART I FINANCIAL INFORMATION

### ITEM 1.
### FINANCIAL STATEMENTS

### COGENT COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES
### CONDENSED CONSOLIDATED BALANCE SHEETS
### AS OF SEPTEMBER 30, 2024 AND DECEMBER 31, 2023
### (IN THOUSANDS, EXCEPT SHARE DATA)

| | September 30, 2024 (Unaudited) | December 31, 2023 |
|---|---|---|
| **Assets** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 279,191 | $ 75,092 |
| Restricted cash | 36,901 | 38,689 |
| Accounts receivable, net of allowance for credit losses of $10,223 and $3,677, respectively | 99,565 | 135,475 |
| Due from T-Mobile, IP Transit Services Agreement, current portion, net of discount of $18,468 and $24,898, respectively | 81,532 | 179,269 |
| Due from T-Mobile, Transition Services Agreement | — | 4,514 |
| Prepaid expenses and other current assets | 72,214 | 80,588 |
| Total current assets | 569,403 | 513,627 |
| **Property and equipment:** | | |
| Property and equipment | 3,227,805 | 2,947,376 |
| Accumulated depreciation and amortization | (1,607,122) | (1,409,559) |
| Total property and equipment, net | 1,620,683 | 1,537,817 |
| **Right-of-use leased assets** | 289,894 | 361,587 |
| **IPv4 intangible assets** | 458,000 | 458,000 |
| **Other intangible assets, net** | 13,481 | 14,815 |
| **Deposits and other assets** | 29,668 | 23,438 |
| **Due from T-Mobile, IP Transit Services Agreement, net of discount of $15,644 and $27,916, respectively** | 201,022 | 263,750 |
| **Due from T-Mobile, Purchase Agreement, net of discount of $6,172 and $13,725, respectively** | 21,943 | 38,585 |
| Total assets | $ 3,204,094 | $ 3,211,619 |
| **Liabilities and stockholders' equity** | | |
| **Current liabilities:** | | |
| Accounts payable | $ 53,053 | $ 48,356 |
| Accrued and other current liabilities | 148,204 | 120,523 |
| Due to T-Mobile – Transition Services Agreement | 1,570 | 66,908 |
| Due to T-Mobile – Purchase Agreement | — | 4,981 |
| Current maturities, operating lease liabilities | 55,867 | 67,962 |
| Finance lease obligations, current maturities | 21,939 | 64,594 |
| Total current liabilities | 280,633 | 373,324 |
| **Senior secured 2026 notes, net of unamortized debt costs of $443 and $645, respectively, and discounts of $590 and $857, respectively** | 498,967 | 498,498 |
| **Senior unsecured 2027 notes, net of unamortized debt costs of $1,997 and $941, respectively, and discounts of $7,699 and $1,970, respectively** | 740,304 | 447,088 |
| **Secured IPv4 notes, net of debt costs of $7,016** | 198,984 | — |
| **Operating lease liabilities, net of current maturities** | 270,932 | 330,095 |
| **Finance lease obligations, net of current maturities** | 460,632 | 419,921 |
| **Deferred income tax liabilities** | 382,987 | 471,498 |
| **Other long-term liabilities** | 47,102 | 61,639 |
| Total liabilities | 2,880,541 | 2,602,063 |
| **Commitments and contingencies:** | | |
| **Stockholders' equity:** | | |
| Common stock, $0.001 par value; 75,000,000 shares authorized; 49,012,688 and 48,608,569 shares issued and outstanding, respectively | 49 | 49 |
| Additional paid-in capital | 620,410 | 606,755 |
| Accumulated other comprehensive loss | (12,294) | (14,385) |
| Accumulated (deficit) earnings | (284,612) | 17,137 |
| Total stockholders' equity | 323,553 | 609,556 |
| **Total liabilities and stockholders' equity** | $ 3,204,094 | $ 3,211,619 |

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

**COGENT COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2024 AND SEPTEMBER 30, 2023**
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

| | Three Months Ended September 30, 2024 (Unaudited) | Three Months Ended September 30, 2023 (Unaudited) |
|---|---|---|
| **Service revenue** | $ 257,202 | $ 275,429 |
| **Operating expenses:** | | |
| Network operations (including $ 469 and $370 of equity-based compensation expense, respectively, exclusive of depreciation and amortization shown separately below) | 161,552 | 173,594 |
| Selling, general, and administrative (including $ 7,406 and $7,041 of equity-based compensation expense, respectively) | 67,664 | 65,308 |
| Acquisition costs – Sprint Business | — | 351 |
| Depreciation and amortization | 85,815 | 86,734 |
| Total operating expenses | 315,031 | 325,987 |
| **Operating loss** | (57,829) | (50,558) |
| **Interest expense, including change in valuation interest rate swap agreement** | (26,877) | (29,023) |
| **Gain on bargain purchase – Sprint Business** | — | (3,332) |
| **Interest income – IP Transit Services Agreement** | 5,438 | 10,299 |
| **Interest income – Purchase Agreement** | 409 | 664 |
| **Interest income and other, net** | (1,153) | 1,604 |
| **Loss before income taxes** | (80,012) | (70,346) |
| **Income tax benefit** | 16,900 | 13,623 |
| **Net loss** | $ (63,112) | $ (56,723) |
| | | |
| **Comprehensive loss:** | | |
| Net loss | $ (63,112) | $ (56,723) |
| Foreign currency translation adjustment | 8,847 | (4,134) |
| **Comprehensive loss** | $ (54,265) | $ (60,857) |
| | | |
| **Net loss per common share:** | | |
| **Basic net loss per common share** | $ (1.33) | $ (1.20) |
| **Diluted net loss per common share** | $ (1.33) | $ (1.20) |
| **Dividends declared per common share** | $ 0.985 | $ 0.945 |
| | | |
| **Weighted-average common shares - basic** | 47,426,131 | 47,227,338 |
| | | |
| **Weighted-average common shares - diluted** | 47,426,131 | 47,227,338 |

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

**COGENT COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024 AND SEPTEMBER 30, 2023**
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

| | Nine Months Ended September 30, 2024 (Unaudited) | Nine Months Ended September 30, 2023 (Unaudited) |
|---|---|---|
| **Service revenue** | $ 783,813 | $ 668,822 |
| **Operating expenses:** | | |
| Network operations (including $ 1,204 and $750 of equity-based compensation expense, respectively, exclusive of depreciation and amortization shown separately below) | 486,657 | 369,734 |
| Selling, general, and administrative (including $ 17,186 and $19,491 of equity-based compensation expense, respectively) | 212,706 | 194,046 |
| Acquisition costs – Sprint Business | 21,407 | 1,490 |
| Depreciation and amortization | 230,747 | 164,403 |
| Total operating expenses | 951,517 | 729,673 |
| **Gain on lease termination** | 3,332 | — |
| **Operating loss** | (164,372) | (60,851) |
| **Interest expense, including change in valuation interest rate swap agreement** | (85,575) | (76,138) |
| **Gain on bargain purchase – Sprint Business** | 22,202 | 1,152,386 |
| **Interest income – IP Transit Services Agreement** | 18,702 | 17,968 |
| **Interest income – Purchase Agreement** | 331 | 1,170 |
| **Interest income and other, net** | 4,074 | 5,154 |
| **(Loss) income before income taxes** | (204,638) | 1,039,689 |
| **Income tax benefit** | 43,881 | 33,599 |
| **Net (loss) income** | $ (160,757) | $ 1,073,288 |
| | | |
| **Comprehensive (loss) income:** | | |
| Net (loss) income | $ (160,757) | $ 1,073,288 |
| Foreign currency translation adjustment | 2,091 | (605) |
| **Comprehensive (loss) income** | $ (158,666) | $ 1,072,683 |
| | | |
| **Net (loss) income per common share:** | | |
| **Basic net (loss) income per common share** | $ (3.39) | $ 22.72 |
| **Diluted net (loss) income per common share** | $ (3.39) | $ 22.54 |
| **Dividends declared per common share** | $ 2.925 | $ 2.805 |
| | | |
| **Weighted-average common shares - basic** | 47,453,906 | 47,234,025 |
| | | |
| **Weighted-average common shares - diluted** | 47,453,906 | 47,624,709 |

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

**COGENT COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024 AND SEPTEMBER 30, 2023**
**(IN THOUSANDS)**

| | Nine Months Ended September 30, 2024 (Unaudited) | Nine Months Ended September 30, 2023 (Unaudited) |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net (loss) income | $ (160,757) | $ 1,073,288 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation and amortization | 230,747 | 164,403 |
| Amortization of debt costs and discounts | 2,364 | 986 |
| Amortization of discounts, due from T-Mobile, IP Transit Services & Purchase Agreements | (19,033) | (19,138) |
| Equity-based compensation expense (net of amounts capitalized) | 18,390 | 20,241 |
| Gain on bargain purchase – Sprint Business | (22,202) | (1,152,386) |
| Gains – lease terminations and other, net | (3,332) | (277) |
| Deferred income taxes | (66,902) | (63,509) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 35,910 | (3,247) |
| Prepaid expenses and other current assets | (3,949) | (4,763) |
| Due to T-Mobile – Transition Services Agreement | (65,338) | 69,629 |
| Due from T-Mobile – Transition Services Agreement | 4,514 | (16,831) |
| Accounts payable, accrued liabilities and other long-term liabilities | 32,785 | (2,176) |
| Deposits and other assets | (6,374) | (177) |
| Net cash (used in) provided by operating activities | (23,177) | 66,043 |
| **Cash flows from investing activities:** | | |
| Cash payments - IP Transit Services Agreement – T-Mobile | 179,167 | 116,667 |
| Acquisition of Sprint Business, net of $ 47.1 million of cash acquired in 2023 | 12,323 | (14,037) |
| Purchases of property and equipment | (148,894) | (86,023) |
| Net cash provided by investing activities | 42,596 | 16,607 |
| **Cash flows from financing activities:** | | |
| Dividends paid | (140,992) | (135,354) |
| Purchases of common stock | (7,968) | — |
| Net proceeds from issuance of senior unsecured 2027 Notes - net of discount of $ 6.8 million and debt costs of $1.4 million | 291,879 | — |
| Net proceeds from issuance of secured IPv4 notes – net of debt costs of $ 7.6 million | 198,426 | — |
| Proceeds from exercises of stock options | 952 | 787 |
| Principal payments of finance lease obligations | (46,653) | (58,549) |
| Settlement of finance lease – at a discount | (114,576) | — |
| Net cash provided by (used in) financing activities | 181,068 | (193,116) |
| **Effect of exchange rates changes on cash** | 1,824 | 626 |
| **Net increase (decrease) in cash, cash equivalents and restricted cash** | 202,311 | (109,840) |
| **Cash, cash equivalents and restricted cash, beginning of period** | 113,781 | 275,912 |
| **Cash, cash equivalents and restricted cash, end of period** | $ 316,092 | $ 166,072 |
| **Supplemental disclosure of non-cash financing activities:** | | |
| Finance lease obligations incurred | $ 171,638 | $ 217,782 |

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

**COGENT COMMUNICATIONS HOLDINGS, INC., AND SUBSIDIARIES**
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of the business:**

**Reorganization and merger**

On May 15, 2014, pursuant to the Agreement and Plan of Reorganization (the “Merger Agreement”) by and among Cogent Communications Group, LLC (formerly Cogent Communications Group, Inc.) (“Group”), a Delaware corporation, Cogent Communications Holdings, Inc., a Delaware corporation (“Holdings”) and Cogent Communications Merger Sub, Inc., a Delaware corporation, Group adopted a new holding company organizational structure whereby Group is now a wholly owned subsidiary of Holdings. Holdings is a “successor issuer” to Group pursuant to Rule 12g-3(a) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). References to the “Company” for events that occurred prior to May 15, 2014 refer to Cogent Communications Group, LLC (formerly Cogent Communications Group, Inc.) and its subsidiaries and on and after May 15, 2014 the “Company” refers to Cogent Communications Holdings, Inc. and its subsidiaries. Cogent Communications, LLC (formerly Cogent Communications, Inc.) is wholly owned by Group, Sprint Communications Company LP is indirectly wholly owned by Holdings, and the vast majority of the Company’s assets, contractual arrangements, and operations are executed by Sprint Communications Company LP and Cogent Communications, LLC.

**Description of business**

The Company is a facilities-based provider of low-cost, high-speed Internet access, private network services, optical wavelength and optical transport services and data center colocation space and power. The Company’s network is specifically designed and optimized to transmit packet routed data. The Company delivers its services primarily to businesses, large and small, communications service providers and other bandwidth-intensive organizations in 56 countries across North America, Europe, South America, Oceania and Africa. The Company is a Delaware corporation and is headquartered in Washington, DC.

The Company offers on-net Internet access services exclusively through its own facilities, which run from its network to its customers’ premises. The Company offers its on-net services to customers located in buildings that are physically connected to its network. As a result, the Company is not dependent on local telephone companies or cable TV companies to serve its customers for its on-net Internet access and private network services. The Company’s on-net service consists of high-speed Internet access and private network services offered at speeds ranging from 100 megabits per second to 400 gigabits per second.

The Company provides its on-net Internet access and private network services to its corporate, net-centric and enterprise customers. The Company’s corporate customers are located in multi-tenant office buildings that typically include law firms, financial services firms, advertising and marketing firms, as well as health care providers, educational institutions and other professional services businesses. The Company’s net-centric customers include bandwidth-intensive users that leverage its network either to deliver content to end users or to provide access to residential or commercial Internet users. Content delivery customers include over the top media service providers, content delivery networks, web hosting companies, and commercial content and application software providers. The Company’s net-centric customers include access networks comprised of other Internet Service Providers, telephone companies, mobile phone operators and cable television companies that collectively provide internet access to a substantial number of broadband subscribers and mobile phone subscribers across the world. These net-centric customers generally receive the Company’s services in carrier neutral colocation facilities and in the Company’s own data centers. The Company operates data centers throughout North America and Europe that allow its customers to collocate their equipment and access the Company’s network.

In addition to providing on-net services, the Company provides Internet access and private network services to customers that are not located in buildings directly connected to its network. The Company provides these off-net services primarily to corporate customers using other carriers’ circuits to provide the “last mile” portion of the link from the customers’ premises to the Company’s network. The Company also provides certain non-core services that resulted from acquisitions, including the acquisition of Sprint Communications (as discussed below). The Company continues to support but does not actively sell these non-core services.

In connection with the Company's acquisition of Sprint Communications, the Company began to provide optical wavelength services and optical transport services over a network that is generally independent of the Company's legacy IP network. The Company is selling these wavelength services to its existing customers, customers of Sprint Communications and to new customers who require dedicated optical transport connectivity without the capital and ongoing expenses associated with owning and operating network infrastructure. Additionally, the Sprint Business (as defined below) customers include a number of companies larger than the Company's historical customer base. In connection with the acquisition of Sprint Communications, the Company expanded selling services to these larger "Enterprise" customers.

**Acquisition of Sprint Communications**

On September 6, 2022, Cogent Infrastructure, LLC (formerly Cogent Infrastructure, Inc.), a Delaware corporation (the "Buyer" and "Cogent Infrastructure") and a direct wholly owned subsidiary of the Company, entered into a Membership Interest Purchase Agreement (the "Purchase Agreement") with Sprint Communications LLC, a Kansas limited liability company ("Sprint Communications") and an indirect wholly owned subsidiary of T-Mobile US, Inc., a Delaware corporation ("T-Mobile"), and Sprint LLC, a Delaware limited liability company and an indirect wholly owned subsidiary of T-Mobile (the "Seller"), pursuant to which the Company acquired the U.S. long-haul fiber network (including the non-U.S. extensions thereof) of Sprint Communications and its subsidiaries (the "Sprint Business"). Pursuant to the Purchase Agreement, the Company purchased from the Seller all of the issued and outstanding membership interests (the "Purchased Interests") of Wireline Network Holdings LLC, a Delaware limited liability company that, following an internal restructuring and divisive merger, holds Sprint Communications' assets and liabilities relating to the Sprint Business (such transactions contemplated by the Purchase Agreement, collectively, the "Transaction"). The Purchase Agreement includes customary representations, warranties, indemnities and covenants, including regarding the conduct of the Sprint Business prior to the closing of the Transaction (the "Closing"). In addition, the Closing was subject to customary closing conditions, including the receipt of certain required regulatory approvals and consents.

The Company believes it is in a unique position to monetize the Sprint Business and its network and management expects to achieve significant cost reduction synergies and revenue synergies from the Transaction. Revenue and pre-tax loss for the Sprint Business included in the Company's condensed consolidated statements of comprehensive loss for the three - month period ended September 30, 2023 were $113.0 million and $82.1 million, respectively. Revenue and pre - tax loss for the Sprint Business included in the Company's condensed consolidated statements of comprehensive (loss) income for the nine-month period ended September 30, 2023 were $191.0 million and $141.6 million, respectively.

**Purchase Price**

The Transaction closed on May 1, 2023 (the "Closing Date"). On the Closing Date, the Buyer consummated the Transaction pursuant to the terms of the Purchase Agreement, providing a purchase price of $1 payable to the Seller for the Purchased Interests, subject to customary adjustments, including working capital (the "Working Capital Adjustment"), as set forth in the Purchase Agreement. As consideration for the Purchased Interests, the Working Capital Adjustment (primarily related to acquired cash and cash equivalents of an estimated $43.4 million at the Closing Date in order to fund the international operations of the Sprint Business) resulted in the Buyer making a payment to the Seller of $61.1 million on the Closing Date. During the third quarter of 2023, an additional Working Capital Adjustment of $5.0 million was accrued due to the Seller. The final determination of the Working Capital Adjustment (which included the Short-term Lease Payment below) was completed in April 2024 and the Company paid the Seller $5.0 million for the remaining Working Capital Adjustment.

*Short-term lease payment*

The Purchase Agreement also provides for an estimated payment of $ 28.1 million ($19.8 million net of discount) from the Seller to the Buyer related to acquired short-term operating lease obligations (the "Short-term Lease Payment"). The Short-term Lease Payment will be paid from the Seller to the Company in four equal payments in months 55 to 58 after the Closing Date. The final determination of the Short - term Lease Payment was completed in April 2024. The Short-term Lease Payment was recorded at its present value resulting in a discount of $8.4 million. The interest rate used in determining the present value was derived considering rates on similar issued debt instruments with comparable durations, amongst other market factors. The determination of the discount rate requires some judgment. During the third quarter of 2023, the Short-term Lease Payment was reduced by $4.8 million and in the first quarter of 2024, the Short - term Lease Payment was reduced by an additional $17.0 million, net of discount of $7.2 million. Including the cumulative impact of the first quarter 2024 adjustment, the amortization of the discount resulted in interest income of

$0.4 and $0.7 million for the three months ended September 30, 2024 and 2023, respectively and $ 0.3 and $1.2 million for the nine months ended September 30, 2024 and 2023, respectively.

*Severance reimbursement*

The Purchase Agreement also provides for reimbursement from the Seller to the Buyer for qualifying severance expenses incurred. Total qualifying severance expenses were $28.6 million of which $12.3 million were recorded in the nine months ended September 30, 2024. No reimbursement amounts were recorded in the three and nine months ended September 30, 2023 or in the three months ended September 30, 2024.

*IP Transit Services Agreement*

On the Closing Date, Cogent Communications, LLC (formerly Cogent Communications, Inc.), and T-Mobile USA, Inc., a Delaware corporation and direct subsidiary of T-Mobile ("TMUSA"), entered into an agreement for IP transit services ("IP Transit Services Agreement"), pursuant to which TMUSA will pay an affiliate of the Company an aggregate of $700.0 million, consisting of (i) $350.0 million in equal monthly installments of $ 29.2 million per month during the first year after the Closing Date and (ii) $ 350.0 million in equal monthly installments of $8.3 million per month over the subsequent 42 months. Under the IP Transit Services Agreement., TMUSA paid the Company $25.0 million and $87.5 million, during the three months ended September 30, 2024 and 2023, respectively, and $179.2 million and $116.7 million during the nine months ended September 30, 2024 and 2023, respectively.

The IP Transit Services Agreement was recorded in connection with the Transaction at its discounted present value resulting in a discount of $79.6 million. The interest rate used in determining the present value was derived considering rates on similar issued debt instruments with comparable durations, amongst other market factors. The determination of the discount rate requires some judgment. The amortization of the discount resulted in interest income of $5.4 million and $10.3 million for the three months ended September 30, 2024 and 2023, respectively, and $18.7 million and $18.0 million for the nine months ended September 30, 2024 and 2023, respectively.

*Transition Services Agreement*

On the Closing Date, the Buyer entered into a transition services agreement (the "TSA") with the Seller, pursuant to which the Seller will provide to the Buyer, and the Buyer will provide to the Seller on an interim basis following the Closing Date, certain specified services (the "Transition Services") to ensure an orderly transition following the separation of the Sprint Business from Sprint Communications. The services to be provided by the Seller to the Buyer include, among others, information technology support, back office and finance, real estate and facilities, vendor and supply chain management, including the payment and processing of vendor invoices for the Company and human resources services. The services to be provided by the Buyer to the Seller include, among others, information technology and network support, finance and back office and other wireless business support.

The Transition Services are generally intended to be provided for a period of up to two years following the Closing Date, although such period may be extended for an additional one-year term by either party upon 30 days' prior written notice. The fees for the Transition Services are calculated using either a per service monthly fee or an hourly rate for the employees allocated to provide such services. Any third-party costs incurred in providing the Transition Services are passed on to the party receiving such services at cost for the two-year period. Amounts paid for the Sprint Business by T-Mobile are reimbursed at cost.

Either party to the TSA may terminate the agreement with respect to any individual service in full for convenience upon 30 days' prior written notice for certain services and reduced for other services after a 90-day period. The TSA may be terminated in its entirety if the other party has failed to perform any of its material obligations and such failure is not cured within 30 days. The TSA provides for customary indemnification and limits on liability. Amounts billed under the TSA are due 30 days from receipt of the related invoice. Amounts billed to the Company under the TSA are primarily for reimbursement at cost of payments to vendors of the Sprint Business until these vendors are fully transitioned to the Company. The amounts due from the Seller are primarily reimbursements for severance costs related to Sprint Business employees and services provided by the Company for the Seller. During the three and nine months ended September 30, 2024, the Company was billed $3.0 million and $26.3 million as due to the Seller under the TSA, respectively. During the three and nine months ended September 30, 2023, the Company was billed $101.2 million and $218.0 million as due to the Seller under the TSA, respectively. During the three and nine months ended September 30, 2024, the Company paid the Seller $3.7 million and $91.9 million, respectively, under the TSA. During the three and nine months ended September 30, 2023 the Company paid $153.1 million to the Seller under the TSA. As of September 30, 2024, the Company owed

$1.6 million to the Seller under the TSA. As of December 31, 2023, the Company owed $ 66.9 million to the Seller and the Seller owed $4.5 million to the Company under the TSA.

*Other Services Provided to the Seller*

In addition, on the Closing Date, the Buyer and TMUSA entered into a commercial agreement (the "Commercial Agreement") for colocation and connectivity services, pursuant to which the Company will provide such services to TMUSA for a per service monthly fee plus certain third-party costs incurred in providing the services. Under the Commercial Agreement, the Company recorded revenue of $5.9 million and $8.0 million during the three months ended September 30, 2024 and 2023, respectively, and $ 13.2 million and $15.3 million during the nine months ended September 30, 2024 and 2023, respectively. As of September 30, 2024, and December 31, 2023, TMUSA owed $4.1 million and $1.6 million, respectively, to the Company under the Commercial Agreement. These amounts are recorded in accounts receivable.

*Acquisition-Related Costs*

In connection with the Transaction and negotiation of the Purchase Agreement, the Company incurred a total of $ 13.6 million of professional fees and other acquisition related costs (not including severance costs) since the acquisition date. Acquisition related costs were $0.4 million for the three months ended September 30, 2023 and $ 21.4 million and $1.5 million for the nine months ended September 30, 2024 and 2023, respectively. There were no acquisition related costs in the three months ended September 30, 2024.

*Consideration*

The acquisition-date fair value of consideration to be received from the Transaction comprised of the following:

| *(In thousands)* | | May 1, 2023 |
|---|---|---|
| **Working capital payments made to the Seller, net of severance reimbursements (a)** | **$** | **37,532** |
| Purchase Agreement payment to be received from the Seller, net of discount of $ 8,392 (b) | | 19,723 |
| Amounts due from the Seller – IP Transit Services Agreement, net of discount of $ 79,610 (c) | | 620,390 |
| **Total to be received from the Seller** | | **640,113** |
| **Total net consideration to be received from the Seller (d)** | | **602,581** |

(a) Includes $61.1 million paid to the Seller on the Closing Date and $ 5.0 million paid in April 2024. Additionally, includes an offsetting $28.6 million in total severance reimbursement payments received from the Seller recorded as measurement period adjustments of

- $16.2 million during the three months ended December 31, 2023,
- $4.3 million during the three months ended March 31, 2024, and
- $8.0 million during the three months ended June 30, 2024.

(b) Under the Purchase Agreement, 50.0% of the assumed short-term operating lease liabilities totaling $ 28.1 million are to be paid to the Company from the Seller in four equal installments in months 55-58 from the Closing Date and was recorded at their present value resulting in a discount of $8.4 million. During the three months ended March 31, 2024, the Working Capital Adjustment net of discount, was adjusted by $17.0 million to reflect the conclusion of the determination of amounts due from the Seller from the Short-term Lease Payment.

(c) The IP Transit Services Agreement payments totaling $ 700.0 million were recorded at their present value resulting in a discount of $79.6 million. The $700.0 million is to be paid to the Company from the Seller in equal monthly payments of $ 29.2 million in months 1-12 and $8.3 million in months 13-54.

(d) Cash consideration was $1

*Fair Value of Assets Acquired and Liabilities Assumed and Gain on Bargain Purchase*

The Company accounted for the Transaction as a business combination under ASC Topic 805 *Business Combination* ("ASC 805"). Under ASC 805, the identifiable assets acquired and liabilities assumed were recorded at their fair values as of the Closing Date. Assigning fair market values to the assets acquired and liabilities assumed at the date of an acquisition requires the use of significant judgment regarding estimates and assumptions. For the fair values of the assets acquired and liabilities assumed, the Company used the cost, income and market approaches, including market participant assumptions. The fair value of the identifiable assets acquired (including amounts due under the IP Transit Services Agreement) were in excess of the liabilities assumed and the net consideration to be paid resulting in a gain on bargain purchase of $1.4 billion.

The Transaction is considered an asset purchase for income tax purposes. The tax basis of the acquired business is the consideration paid ($1) plus the tax basis of certain liabilities assumed, with adjustments for cash acquired in excess of the purchase price. Deferred income taxes are recorded based upon the difference between the book and tax basis of the acquired assets and assumed liabilities at the Company's marginal effective income tax rate on the Closing Date.

During the three months ended March 31, 2024, the Company recorded a measurement period adjustment resulting in a reduction to the gain on bargain purchase of $5.5 million which included;

- A reduction to the Short-term Lease Receivable of $24.2 million ($17.0 million net of discount),
- Additional reimbursed severance costs of $4.3 million,
- An increase to unfavorable lease liabilities of $6.0 million,
- A reduction to accrued liabilities of $11.3 million; and
- A reduction to deferred income tax liabilities resulting from the adjustments noted above of $1.9 million.

During the three months ended June 30, 2024, the Company recorded measurement period adjustments resulting in an increase to the gain on bargain purchase of $27.7 million which included;

- Additional reimbursed severance costs of $8.0 million, and
- An adjustment to net deferred income tax liabilities of $19.7 million.

The following table summarizes the fair values for each major class of assets acquired and liabilities assumed at the Closing Date. The Company retained the services of certified valuation specialists to assist with assigning values to certain acquired assets and assumed liabilities.

| | | May 1, 2023 |
|---|---|---|
| **Assets** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ | 47,074 |
| Accounts receivable | | 39,948 |
| Prepaid expenses and other current assets | | 22,777 |
| Total current assets | | 109,799 |
| **Total property and equipment** | | 965,715 |
| **Right-of-use leased assets** | | 304,982 |
| **IPv4 intangible assets** | | 458,000 |
| **Other intangible assets** | | 16,000 |
| **Deposits and other assets** | | 7,521 |
| Total assets | $ | 1,862,017 |
| **Liabilities** | | |
| **Current liabilities:** | | |
| Accounts payable | $ | 13,313 |
| Accrued and other current liabilities | | 25,344 |
| Current maturities, operating lease liabilities | | 74,562 |
| Current maturities, finance lease liabilities | | 39,559 |
| Total current liabilities | | 152,778 |
| **Operating lease liabilities, net of current maturities** | | 251,573 |
| **Finance lease liabilities, net of current maturities** | | 121,342 |
| **Deferred income tax liabilities** | | 474,891 |
| **Other long-term liabilities** | | 35,366 |
| Total liabilities | | 1,035,950 |
| **Fair value of net assets acquired** | $ | 826,067 |
| **Gain on bargain purchase** | | |
| Fair value of net assets acquired | $ | 826,067 |
| Total net consideration to be received from the Seller, net of discounts - see table above | | 602,581 |
| Gain on bargain purchase | $ | 1,428,648 |

*Acquired Property & Equipment*

The Company acquired property and equipment of $ 965.7 million. This is primarily comprised of the legacy Sprint network and consists of optical fiber, related equipment, and owned real estate that were valued using a combination of cost and market approaches. Management intends to operate the acquired business; however, management valued these assets using factors that represent an orderly liquidation value, to approximate the highest and best use of assets acquired in a distressed business.

The estimated fair value of the optical fiber on the Closing Date was $ 369.2 million. The valuation requires the estimation of the total replacement cost per mile of fiber and a factor to reflect the orderly liquidation value. There is not active market data for these assumptions and these assumptions are inherently subjective. Market participants could have differing views on these assumptions, which could result in a materially different fair value of the optical fiber.

*Acquired Leases*

The Company acquired a portfolio of lease arrangements for the lease of dark fiber, rights-of-way and facilities. In accordance with ASC 805 and ASC Topic 842 *Leases*, the acquired leases are accounted for as if the leases are new at the acquisition date however, the Company will retain the lease classification from the Seller. The Company followed its historical policies with respect to evaluating the renewal periods of the acquired leases and estimating the incremental borrowing rate. The Company also evaluated the leases for unfavorable terms and recorded an adjustment for unfavorable market terms of $157.2 million that was valued using the income approach. Unfavorable lease liabilities are presented net of the corresponding right of use assets.

*Acquired Intangible Assets*

Intangible assets acquired include $458.0 million of IPv4 addresses and $ 16.0 million of acquired customer relationships. The fair value measurement of the IPv4 addresses was based on recent auction prices and a factor to incorporate the uncertainty for how the market for IPv4 addresses will function in the future. The Company believes that these IPv4 addresses have an indefinite useful live and are not being amortized. The Company evaluates these assets for impairment on the first day of the fourth quarter. There was no impairment recorded during the period from May 1, 2023 through September 30, 2024. During the fourth quarter of 2023, the Company recorded a reduction to acquired customer relationships, totaling $41.0 million from revisions to certain assumptions.

The acquired customer relationships have an estimated useful life of nine years and the estimated fair value was determined using a market-based income approach. Amortization expense was $0.4 and $1.6 million for the three months ended September 30, 2024 and 2023, respectively, and $1.3 million and $2.6 million for the nine months ended September 30, 2024 and 2023, respectively. Future amortization expense of the customer relationships is $6.3 million per year for eight years.

*Acquired Asset Retirement Obligations*

In connection with the Transaction, the Company assumed $ 32.0 million of asset retirement obligations primarily related to restoration obligations for acquired leases that was valued using the income approach. In accordance with ASC 410, the Company has not recorded an asset retirement obligation related to the removal of the acquired optical fiber because a settlement date for which to remove the fiber is indeterminable and therefore a reasonable estimation of fair value cannot be made.

*Reassessment of Bargain Purchase Gain*

Because the fair value of the identifiable assets acquired and liabilities assumed exceeded the fair value of the consideration transferred, the Company recorded a material bargain purchase gain. Consequently, the Company reassessed the recognition and measurement of identifiable assets acquired and liabilities assumed in accordance with ASC 805-30-25-4 and concluded that all acquired assets and assumed liabilities were recognized and that the valuation procedures and resulting measures were appropriate.

*Pro Forma Information*

The following unaudited pro forma financial information gives effect to the Transaction as if it had been completed on January 1, 2023. The pro forma adjustments are based on historically reported transactions by the respective companies. The pro forma results do not include anticipated synergies or other expected benefits of the acquisition. The pro forma results for the nine months ended September 30, 2023 include the historical results of the Sprint Business through April 30, 2023 and the combined results of the Company and the Sprint Business for the five months ended September 30, 2023. The unaudited pro forma information is based upon available information and certain assumptions that the Company believes are reasonable under the circumstances. Actual results may differ materially from the assumptions within the accompanying unaudited pro forma financial information. The selected unaudited pro forma condensed combined financial information is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations would have been had the Transaction actually occurred on January 1, 2023, nor do they purport to project the future consolidated results of operations.

| ***(In thousands)*** | **Nine Months Ended September 30, 2023** |
|---|---|
| Service revenue | $ 849,580 |
| Operating loss from continuing operations | (247,087) |
| Net income | 1,148,989 |

The pro forma results for the nine months ended September 30, 2023 include

- The gain on bargain purchase related to the Transaction of $1.4 billion,
- Interest income from the amortization of the discount recorded under the IP Transit Services Agreement of $14.7 million,

- A net increase to historical depreciation expense based on the fair value of property and equipment and the impact of a finance lease adjustment of $29.5 million,
- Amortization expense related to the customer relationship intangible assets of $0.6 million,
- Amortization of unfavorable lease liabilities of $1.0 million,
- A reduction to network operations expense of $16.8 million and an increase to interest expense of $3.9 million from the impact of a finance lease adjustment, and
- The impact to income tax expense from the pro-forma adjustments of $2.9 million.

**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, ("GAAP") 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 annual report on Form 10-K for the year ended December 31, 2023. Certain prior year amounts have been reclassified to conform to current year presentation.

The accompanying unaudited condensed 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 US GAAP 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.

*Financial instruments*

At September 30, 2024 and December 31, 2023, the carrying amount of cash and cash equivalents, restricted cash, 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 and restricted cash at amortized cost, which approximates fair value based upon quoted market prices (Level 1).

Based upon recent trading prices (Level 2—market approach) at September 30, 2024,

- The fair value of the Company's $450.0 million aggregate principal amount of 7.00% Senior Unsecured Notes due 2027 (the "2027 Notes") was $455.6 million,
- The fair value of the Company's $300.0 million aggregate principal amount of 7.00% Senior Unsecured Mirror Notes due 2027 (the "2027 Mirror Notes") was $303.8 million,
- The fair value of the Company's $500.0 million aggregate principal amount of 3.50% Senior Secured Notes due 2026 (the "2026 Notes") was $482.5 million,
- The fair value of the Company's $206.0 million aggregate principal amount of secured IPv4 notes (the "IPv4 Notes") was $214.8 million, and
- The fair value of the Company's interest rate swap agreement was $29.9 million.

*Restricted cash and interest rate swap agreement*

Restricted cash includes amounts held in segregated bank accounts by the Company's clearing broker as margin in support of the Company's Swap Agreement as discussed in Note 3 and was $29.9 million as of September 30, 2024. Additional restricted cash related to the IPv4 Notes, as discussed in Note 3, was $7.0 million as of September 30, 2024. Additional cash may be further restricted to maintain the Company's Swap Agreement as interest rates fluctuate and margin requirements change and under the provisions of the Company's IPv4 Note indenture. The Company does not use derivative financial instruments for trading purposes.

*Gross receipts taxes, universal service fund and other surcharges*

Revenue recognition standards include guidance relating to taxes or surcharges assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer and may include, but are not limited to, gross receipts taxes, excise taxes, Universal Service Fund fees and certain state regulatory fees. Such charges may be presented gross or net based upon the Company's accounting policy election. The Company records certain excise taxes and surcharges on a gross basis and includes them in its revenue and network operations expense. Excise taxes and surcharges billed to customers and recorded on a gross basis (as service revenue and network operations expense) were $19.8 million and $14.6 million for the three months ended September 30, 2024 and 2023, respectively, and $59.5 million and $29.8 million for the nine months ended September 30, 2024 and 2023, respectively.

*Basic and diluted net (loss) income per common share*

Basic earnings (loss) 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 dilutive common stock equivalents. Shares of restricted stock are included in the computation of basic EPS as they vest and are included in diluted EPS, to the extent they are dilutive, determined using the treasury stock method.

The following details the determination of diluted weighted-average shares:

| | **Three Months Ended September 30, 2024** | **Three Months Ended September 30, 2023** | **Nine Months Ended September 30, 2024** | **Nine Months Ended September 30, 2023** |
|---|---|---|---|---|
| Weighted-average common shares - basic | 47,426,131 | 47,227,338 | 47,453,906 | 47,234,025 |
| Dilutive effect of stock options | — | — | — | 15,713 |
| Dilutive effect of restricted stock | — | — | — | 374,971 |
| Weighted-average common shares - diluted | 47,426,131 | 47,227,338 | 47,453,906 | 47,624,709 |

The following details unvested shares of restricted common stock as well as the anti-dilutive effects of stock options and restricted stock awards outstanding:

| | **Three Months Ended September 30, 2024** | **Three Months Ended September 30, 2023** | **Nine Months Ended September 30, 2024** | **Nine Months Ended September 30, 2023** |
|---|---|---|---|---|
| Unvested shares of restricted common stock | 1,582,870 | 1,395,258 | 1,582,870 | 1,395,258 |
| Anti-dilutive options for common stock | 160,357 | 125,643 | 157,129 | 112,048 |
| Anti-dilutive shares of restricted common stock | 359 | 106,125 | 198,510 | 90,768 |

*Stockholders' (Deficit) Equity*

The following details the changes in stockholders' (deficit) equity for the three and nine months ended September 30, 2023 and September 30, 2024, respectively (in thousands except share data):

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Stockholders' (Deficit) Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| **Balance at June 30, 2023** | **48,617,162** | **$ 49** | **$ 589,573** | **$ (15,627)** | **$ (34,795)** | **$ 539,200** |
| Forfeitures of shares granted to employees | (27,061) | — | — | — | — | — |
| Equity-based compensation | — | — | 8,519 | — | — | 8,519 |
| Foreign currency translation | — | — | — | (4,134) | — | (4,134) |
| Issuances of common stock | 14,400 | — | — | — | — | — |
| Exercises of options | 7,881 | — | 402 | — | — | 402 |
| Dividends paid | — | — | — | — | (45,136) | (45,136) |
| Net (loss) | — | — | — | — | (56,723) | (56,723) |
| **Balance at September 30, 2023** | **48,612,382** | **$ 49** | **$ 598,494** | **$ (19,761)** | **$ (136,654)** | **$ 442,128** |

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| **Balance at June 30, 2024** | **48,990,760** | **$ 49** | **$ 610,905** | **$ (21,141)** | **$ (174,290)** | **$ 415,523** |
| Forfeitures of shares granted to employees | (8,890) | — | — | — | — | — |
| Equity-based compensation | — | — | 8,757 | — | — | 8,757 |
| Foreign currency translation | — | — | — | 8,847 | — | 8,847 |
| Issuances of common stock | 17,500 | — | — | — | — | — |
| Exercises of options | 13,318 | — | 748 | — | — | 748 |
| Dividends paid | — | — | — | — | (47,210) | (47,210) |
| Net loss | — | — | — | — | (63,112) | (63,112) |
| **Balance at September 30, 2024** | **49,012,688** | **$ 49** | **$ 620,410** | **$ (12,294)** | **$ (284,612)** | **$ 323,553** |

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Stockholders' (Deficit) Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| **Balance at December 31, 2022** | **48,013,330** | **$ 48** | **$ 575,064** | **$ (19,156)** | **$ (1,074,588)** | **$ (518,632)** |
| Forfeitures of shares granted to employees | (38,891) | — | — | — | — | — |
| Equity-based compensation | — | — | 22,643 | — | — | 22,643 |
| Foreign currency translation | — | — | — | (605) | — | (605) |
| Issuances of common stock | 621,592 | 1 | — | — | — | 1 |
| Exercises of options | 16,351 | — | 787 | — | — | 787 |
| Dividends paid | — | — | — | — | (135,354) | (135,354) |
| Net income | — | — | — | — | 1,073,288 | 1,073,288 |
| **Balance at September 30, 2023** | **48,612,382** | **$ 49** | **$ 598,494** | **$ (19,761)** | **$ (136,654)** | **$ 442,128** |

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| **Balance at December 31, 2023** | **48,608,569** | **$ 49** | **$ 606,755** | **$ (14,385)** | **$ 17,137** | **$ 609,556** |
| Forfeitures of shares granted to employees | (119,435) | — | — | — | — | — |
| Equity-based compensation | — | — | 20,671 | — | — | 20,671 |
| Foreign currency translation | — | — | — | 2,091 | — | 2,091 |
| Issuances of common stock | 659,282 | — | — | — | — | — |
| Exercises of options | 17,594 | — | 952 | — | — | 952 |
| Common stock purchases & retirement | (153,322) | — | (7,968) | — | — | (7,968) |
| Dividends paid | — | — | — | — | (140,992) | (140,992) |
| Net loss | — | — | — | — | (160,757) | (160,757) |
| **Balance at September 30, 2024** | **49,012,688** | **$ 49** | **$ 620,410** | **$ (12,294)** | **$ (284,612)** | **$ 323,553** |

*Revenue recognition*

The Company recognizes revenue under ASU No. 2014 - 09, *Revenue from Contracts with Customers* ("ASC 606"), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Fees billed in connection with customer installations are recorded as deferred revenue. Installation fees for contracts with terms longer than month-to-month are recognized over the contract term. The Company recognizes revenue over the estimated average customer life for installation fees associated with month-to-month contracts. To the extent a customer contract is terminated prior to its contractual end, the customer is subject to termination fees. The Company vigorously seeks payment of these termination fees. The Company recognizes revenue for termination fees as they are collected.

| (in thousands) | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 | Nine Months Ended September 30, 2024 | Nine Months Ended September 30, 2023 |
|---|---|---|---|---|
| Service revenue recognized from deferred revenue balance at beginning of period | $ 2,124 | $ 4,162 | $ 5,787 | $ 6,603 |
| Amortization expense for contract costs | 5,262 | 4,884 | 15,175 | 14,435 |

*Lessor Accounting*

The Company is a lessor for leases of owned dark fiber acquired in connection with the Transaction, that have contract terms that are accounted for as operating leases. These transactions are generally structured as indefeasible - right - of use agreements ("IRUs"), which are the exclusive right to use specified fibers for a specified term, typically 20 - 25 years. Cash consideration received on transfers of dark fiber, including upfront installation fees, is recognized on a straight - line basis to service revenue over the term of the agreement. Lease income is included in service revenue in the condensed consolidated statements of comprehensive (loss) income.

*Leases*

In February 2016, the FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"). ASU 2016-02 replaced most existing lease accounting guidance. The operating lease liability under ASU 2016-02 is not considered a liability under the consolidated leverage ratio calculations in the indentures governing the Company's senior unsecured and senior secured note obligations. The Company has made an accounting policy election to not apply the recognition requirements of ASU 2016-02 to its short-term leases - leases with a term of one year or less. The Company has also elected to apply certain practical expedients under ASU 2016-02 including not separating lease and non-lease components on its finance and operating leases.

| (Amounts in thousands) | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 | Nine Months Ended September 30, 2024 | Nine Months Ended September 30, 2023 |
|---|---|---|---|---|
| Finance lease cost | | | | |
| Amortization of right-of-use assets | $ 11,229 | $ 27,172 | $ 34,997 | $ 44,598 |
| Interest expense on finance lease liabilities | 9,633 | 11,609 | 29,963 | 24,604 |
| Operating lease cost | 28,351 | 20,784 | 75,318 | 53,096 |
| Total lease costs | $ 49,213 | $ 59,565 | $ 140,278 | $ 122,298 |

| | Nine Months Ended September 30, 2024 | Nine Months Ended September 30, 2023 |
|---|---|---|
| *Other lease information (amounts in thousands)* | | |
| Cash paid for amounts included in the measurement of lease liabilities | | |
| Operating cash flows from finance leases | $ (19,690) | $ (23,081) |
| Operating cash flows from operating leases | (77,571) | (54,628) |
| Financing cash flows from finance leases | (161,229) | (58,549) |
| Right-of-use assets obtained in exchange for new finance lease liabilities | 171,638 | 217,782 |
| Right-of-use assets obtained in exchange for new operating lease liabilities | 10,547 | 9,632 |
| Weighted-average remaining lease term — finance leases (in years) | 16.8 | 11.7 |
| Weighted-average remaining lease term — operating leases (in years) | 11.0 | 11.5 |
| Weighted-average discount rate — finance leases | 8.2 % | 7.6 % |
| Weighted-average discount rate — operating leases | 7.9 % | 8.0 % |

*Operating leases and finance leases*

The Company has entered into lease agreements with numerous providers of dark fiber under IRUs. These IRUs typically have initial terms of 15- 20 years and include renewal options after the initial lease term. The majority of these leases are finance leases. The Company also leases office space, rights-of-way and certain data center facilities under operating leases. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments under the lease.

As of September 30, 2024, the Company had committed to additional IRU agreements totaling $ 302.2 million in future payments to be paid over periods of up to 20 years. These obligations begin when the related fiber is accepted, which is generally expected to occur in the next 12 months.

The future minimum payments under operating lease and finance lease agreements are as follows (in thousands):

| For the Twelve Months Ending September 30, | Operating Leases | Finance Leases |
|---|---|---|
| 2025 | $ 64,396 | $ 59,836 |
| 2026 | 56,373 | 53,077 |
| 2027 | 51,922 | 51,965 |
| 2028 | 47,918 | 52,983 |
| 2029 | 43,817 | 50,477 |
| Thereafter | 220,143 | 635,581 |
| Total minimum lease obligations | 484,569 | 903,919 |
| Less—amounts representing interest | (157,770) | (421,348) |
| Present value of minimum lease obligations | 326,799 | 482,571 |
| Current maturities | (55,867) | (21,939) |
| Lease obligations, net of current maturities | $ 270,932 | $ 460,632 |

*Unfavorable lease liabilities*

During the three months ended September 30, 2023, the Company recorded a measurement period adjustment to reclassify $24.9 million from right - of - use leased assets (net of related unfavorable lease liability amount) to finance lease assets (presented within property and equipment) and a measurement period adjustment to reclassify $160.9 million from operating lease liabilities to a finance lease liability.

In connection with the Transaction, the Company recorded $ 157.2 million of unfavorable lease liabilities for leases with terms greater than current market rates. The liability is classified with the corresponding right-of-use lease assets and is being amortized into the condensed consolidated statements of comprehensive (loss) income in the same line items as the activity for the corresponding right-of-use lease assets. Amortization totaling $1.4 million and $9.7 million for the three months ended September 30, 2024 and 2023, respectively, and $5.2 million and $16.2 million for the nine months ended September 30, 2024 and 2023, respectively was recorded as a reduction to network operations expense. Amortization totaling $10.8 million and $28.7 million for the three and nine months ended September 30, 2024, respectively, was recorded as a reduction to depreciation expense.

*Allowance for credit losses*

The Company estimates credit losses expected over the life of its trade receivables based on historical information combined with current conditions that may affect a customer's ability to pay and reasonable and supportable forecasts. While the Company uses various credit quality metrics, it primarily monitors collectability by reviewing the duration of collection pursuits on its delinquent trade receivables. Based on the Company's experience, the customer's delinquency status is the strongest indicator of the credit quality of the underlying trade receivables, which is analyzed monthly.

| Description | Beginning Balance | Current-period Provision for Expected Credit Losses | Write offs Charged Against Allowance | Ending Balance |
|---|---|---|---|---|
| *Allowance for credit losses (deducted from accounts receivable) (in thousands)* | | | | |
| Three months ended September 30, 2024 | $ 6,382 | $ 4,542 | $ (701) | $ 10,223 |
| Three months ended September 30, 2023 | 4,882 | $ 1,271 | $ (1,995) | $ 4,158 |
| Nine months ended September 30, 2024 | 3,677 | 10,056 | (3,510) | 10,223 |
| Nine months ended September 30, 2023 | 2,303 | 7,833 | (5,978) | 4,158 |

| (in thousands) | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 | Nine Months Ended September 30, 2024 | Nine Months Ended September 30, 2023 |
|---|---|---|---|---|
| Net bad debt expense (1) | $ 4,542 | $ 784 | $ 10,056 | $ 6,718 |
| Bad debt recoveries | 544 | 459 | 1,669 | 1,200 |

(1) Net bad debt expense related to the Sprint Business to establish an allowance for credit losses was $3.0 million for the nine months ended September 30, 2023. Under ASC 805, accounts receivable are recorded at fair value at the acquisition date.

**2. Property and equipment:**

Depreciation and amortization expense related to property and equipment and finance leases and capitalized compensation costs of employees directly involved with construction activities were as follows:

| (in thousands) | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 | Nine Months Ended September 30, 2024 | Nine Months Ended September 30, 2023 |
|---|---|---|---|---|
| Depreciation and amortization expense | $ 85,370 | $ 86,718 | $ 230,006 | $ 164,371 |
| Capitalized compensation cost | 11,215 | 11,675 | 34,141 | 24,115 |

*IRU Finance Lease Termination – Discount and Gain on Lease Termination*

In June 2024, the Company elected to exercise a contractual option to prepay in full at a 12.0% discounted rate an IRU finance lease agreement (the “IRU Lease”) for $114.6 million. At the payment date, the present value of the IRU finance lease liability was $117.9 million and the remaining 31 monthly principal payments of $4.2 million each totaled $130.2 million. The prepayment resulted in a gain on lease termination of $3.3 million related to the difference between the book value of $117.9 million and the cash payment of $114.6 million. The Company is continuing to use the related IRU asset.

*Change in Estimated Useful Life - Owned Fiber*

In accordance with its policy, the Company reviews the estimated useful lives of its fixed assets on an ongoing basis. This review indicated that the actual lives of owned fiber acquired as part of the Sprint acquisition were longer than the estimated useful lives used for depreciation purposes in the Company’s financial statements. As a result, effective July 1, 2024, the Company changed its estimates of the useful lives of its owned fiber to better reflect the estimated periods during which these assets will remain in service. The estimated useful lives of the owned fiber, within system infrastructure, that previously averaged 14 years were increased to an average of 40 years. The effect of this change in estimate on the three and nine months ended September 30, 2024 was to reduce depreciation expense by $4.4 million, increase net income by $3.3 million, and increase basic and diluted earnings per share by $0.07.

**3. Long-term debt:**

*Issuance of $300.0 Million Principal Amount of 2027 Mirror Notes*

On June 11, 2024, Group and Cogent Finance, Inc. (the “Co-Issuer” and, together with Group, the “Issuers”), two wholly owned subsidiaries of the Company, completed an offering of $300.0 million aggregate principal amount of 7.00% senior unsecured notes due 2027 (the “2027 Mirror Notes”) for issuance in a private placement not registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”). The 2027 Mirror Notes were offered and sold only to persons reasonably believed to be qualified institutional buyers in an unregistered offering pursuant to Rule 144A under the Securities Act and to certain non-U.S. persons in transactions outside the United States in compliance with Regulation S under the Securities Act. The 2027 Mirror Notes have the same maturity date and call protection, bear interest at the same rate and otherwise have substantially the same terms as the 2027 Notes; however, the 2027 Mirror Notes are not fungible (from a trading or tax perspective) with the 2027 Notes and are a separate series of notes from the 2027 Notes.

The 2027 Mirror Notes were issued at a price equal to 98.50% of their face value. The net proceeds from the offering were approximately $291.9 million after deducting the discount and offering expenses. Group used $ 114.6 million of the net proceeds from the offering to exercise a contractual option to prepay in full in the IRU Lease noted above. Group expects to use the remainder of the net proceeds for general corporate purposes and/or to make special or recurring dividends to the Company.

The 2027 Mirror Notes were issued pursuant to, and are governed by, an indenture, dated June 11, 2024 (the “2027 Mirror Notes Indenture”), among the Issuers, the Company, the other guarantors named therein and Wilmington Trust, National Association, as trustee (the “2027 Notes Trustee”). The 2027 Mirror Notes are jointly and severally guaranteed (the “Guarantees”) on a senior unsecured basis by each of Group’s existing and future material domestic subsidiaries (other than the Co-Issuer), subject to certain exceptions (collectively, the “Subsidiary Guarantors”), and by the Company (together with the Subsidiary Guarantors, the “Guarantors”). However, the Company is not subject to the covenants under the 2027 Mirror Notes Indenture. Under certain circumstances, the Guarantors may be released from these Guarantees without the consent of the holders of the 2027 Mirror Notes.

The 2027 Mirror Notes and the Guarantees are the Issuers’ and the Guarantors’ senior unsecured obligations. The 2027 Mirror Notes and the Guarantees are effectively subordinated to all of the Issuers’ and the Guarantors’ existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness, and are structurally subordinated to all indebtedness and other liabilities of subsidiaries that are not Subsidiary Guarantors. Without giving effect to collateral arrangements, the 2027 Mirror Notes and the Guarantees rank pari passu in right of payment with all of the Issuers’ and the Guarantors’ existing and future senior indebtedness, including the Issuers’ 2026 Notes and the 2027 Notes. The 2027 Mirror Notes and the Guarantees rank contractually senior in right of payment to all of the Issuers’ and the Guarantors’ subordinated indebtedness and are structurally subordinated to any existing and future indebtedness and other liabilities of the Issuers’ non-guarantor subsidiaries.

The 2027 Mirror Notes bear interest at a rate of 7.00% per annum. Interest began to accrue on the 2027 Mirror Notes on June 11, 2024 and will be paid semi-annually in arrears on June 15 and December 15 of each year, commencing December 15, 2024. Unless earlier redeemed or repurchased, the 2027 Mirror Notes will mature on June 15, 2027.

After June 15, 2024, the Issuers may redeem the 2027 Mirror Notes, in whole or in part, at a redemption price ranging from 103.5% of the aggregate principal amount of the 2027 Mirror Notes redeemed to par (depending on the year), in each case, as set forth in the 2027 Mirror Notes Indenture, plus accrued and unpaid interest, if any, to, but not including, the date of redemption.

If Group undergoes specific kinds of change in control accompanied by certain ratings events, the Issuers will be required to offer to repurchase the 2027 Mirror Notes from holders at a price equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the date of repurchase. Additionally, if Group or any of its restricted subsidiaries sells assets and does not apply the proceeds from such sale in a certain manner or certain other events have not occurred, under certain circumstances, the Issuers will be required to use the net proceeds to make an offer to purchase the 2027 Mirror Notes at an offer price in cash equal to 100% of the principal amount of the 2027 Mirror Notes, plus accrued and unpaid interest, if any, to, but not including, the repurchase date. In connection with any offer to purchase all or any of the 2027 Mirror Notes (including a change of control offer, asset sale offer or any tender offer), if holders of no less than 90% of the aggregate principal amount of the outstanding 2027 Mirror Notes validly tender their 2027 Mirror Notes, the Issuers or a third party are entitled to redeem any remaining 2027 Mirror Notes at the price paid to each holder.

The 2027 Mirror Notes Indenture includes covenants that restrict Group and its restricted subsidiaries’ (including the Co-Issuer’s) ability to, among other things; incur indebtedness; issue certain preferred stock or similar equity securities; pay dividends or make other distributions in respect of, or repurchase or redeem, capital stock; make certain investments and other restricted payments, such as prepayment, redemption or repurchase of certain indebtedness; create liens; consolidate, merge, sell or otherwise dispose of all or substantially all of the properties and assets of Group and its restricted subsidiaries taken as a whole; incur restrictions on the ability of a subsidiary to pay dividends or make other payments; or to enter into transactions with affiliates. The covenants provide for certain exceptions to these restrictions, and the Company is not subject to the covenants under the 2027 Mirror Notes Indenture. Certain covenants will cease to apply to the 2027 Mirror Notes if, and for so long as, the 2027 Mirror Notes have investment grade ratings from any two of Moody’s Investors Service, Inc., Fitch Ratings, Inc. and S&P Global Ratings and so long as no default or event of default under the 2027 Mirror Notes Indenture has occurred and is continuing. Upon suspension of the covenants, the Guarantees will be released until such time as the covenants are no longer suspended.

The principal amount of the 2027 Mirror Notes would become immediately due and payable upon the occurrence of certain bankruptcy or insolvency events involving Group, the Co-Issuer or certain of Group's subsidiaries, and may be declared immediately due and payable by the 2027 Notes Trustee or the holders of at least 25% of the aggregate principal amount of the then-outstanding 2027 Mirror Notes upon the occurrence of certain events of default under the 2027 Mirror Notes Indenture. Events of default include the following with respect to the Issuers and Group's significant subsidiaries: (i) failure to pay principal, premium or interest at required times; (ii) failure to comply with any other agreements in the 2027 Mirror Notes Indenture; (iii) default on certain material indebtedness that is caused by a failure to make a payment within any applicable grace period when due at maturity or results in the acceleration of such indebtedness prior to its express maturity; (iv) failure to pay certain material judgments; (v) a Guarantee being held unenforceable or invalid or ceasing for any reason to be in full force and effect or a Guarantor denying or disaffirming its obligations under its Guarantee; and (vi) certain events of bankruptcy or insolvency.

*Issuance of $206.0 Million Principal Amount of IPv4 Notes*

On May 2, 2024, Cogent IPv4 LLC (the "IPv4 Issuer"), a special-purpose, bankruptcy remote, indirect wholly owned subsidiary of the Company, issued $206.0 million aggregate principal amount of 7.924% IPv4 Notes (the "IPv4 Notes"), with an anticipated term ending in May 2029 (such anticipated repayment date, the "ARD"), in an offering exempt from registration under the Securities Act. The net proceeds from the offering, after debt offering costs, were $198.4 million and are expected to be used for general corporate purposes.

The IPv4 Notes were issued pursuant to an indenture, dated as of May 2, 2024 (the "IPv4 Base Indenture"), as supplemented by the Series 2024-1 Supplement thereto, dated as of May 2, 2024 (the "Series 2024-1 Supplement"), in each case entered into by and between the IPv4 Issuer and Wilmington Trust, National Association, as the trustee for the IPv4 Notes (the "IPv4 Trustee"). The IPv4 Base Indenture allows the IPv4 Issuer to issue additional series of notes subject to certain conditions set forth therein, and the IPv4 Base Indenture, together with the Series 2024-1 Supplement, and any other series supplements to the IPv4 Base Indenture, is referred to herein as the "IPv4 Indenture."

The IPv4 Notes were issued as part of a securitization transaction, pursuant to which certain IPv4 addresses, customer IPv4 address leases, customer accounts receivable and other IPv4 address assets (collectively, "IPv4 Address Assets") were contributed to the IPv4 Issuer and are included as collateral for the IPv4 Notes.

While the IPv4 Notes are outstanding, scheduled payments of interest are required to be made on a monthly basis. From and after the ARD, principal payments will also be required to be made on the IPv4 Notes on a monthly basis. No principal payments will be due on the IPv4 Notes prior to the ARD, unless certain rapid amortization or acceleration triggers are activated.

Cogent Communications LLC (in such capacity, the "Manager") performs certain monthly services related to the IPv4 Address Assets and IPv4 Notes including billing customers, collecting amounts paid by customers, forwarding payments to the IPv4 Trustee related to the IPv4 Assets and other administrative services. Amounts paid by the Manager to the IPv4 Trustee are reconciled on a monthly basis and the IPv4 Trustee pays the monthly interest on the IPv4 Notes and other expenses from the accumulated customer payments on the IPv4 Assets. Amounts held by the IPv4 Trustee before the monthly reconciliation is completed are considered restricted cash. After the IPv4 Trustee pays the monthly interest and other IPv4 Asset related costs, including monthly fees paid to the Manager for its services, the residual cash is paid to the Company and is unrestricted.

The legal final maturity date of the IPv4 Notes is in May of 2054. If the IPv4 Issuer has not repaid or refinanced the IPv4 Notes prior to the monthly payment date in May of 2029, additional interest will accrue thereon in an amount equal to the greater of (i) 5.0% per annum and (ii) the excess amount, if any, by which the sum of the following exceeds the interest rate for such IPv4 Note: (A) the yield to maturity (adjusted to a "mortgage-equivalent basis" pursuant to the standards and practices of the Securities Industry and Financial Markets Association) on the ARD for such IPv4 Note of the United States Treasury Security having a remaining term closest to 10 years; plus (B) 5.0%; plus (C) the post-ARD note spread of 3.400% applicable to such IPv4 Note.

The IPv4 Notes are obligations only of the IPv4 Issuer pursuant to the indenture (the IPv4 Indenture"), and are secured by a security interest in substantially all of the IPv4 Address Assets pursuant to the IPv4 Indenture. The IPv4 Notes are guaranteed by Cogent IPv4 Holdco LLC, a special-purpose entity and an indirect wholly owned subsidiary of the Company, as the guarantor (in such capacity, the "IPv4 Guarantor"), pursuant to a guaranty, dated as of May 2, 2024 (the "Guaranty") by the IPv4 Guarantor in favor of the IPv4 Trustee pursuant to which the IPv4 Guarantor has granted a security interest in the equity interests of the IPv4 Issuer as collateral security for its obligations under the Guaranty. Except as described below, neither the Company nor any subsidiary of the Company, other than the IPv4 Issuer and the IPv4 Guarantor, will guarantee or in any way be liable for the obligations of the IPv4 Issuer under the IPv4 Indenture or the IPv4 Notes.

The IPv4 Notes are subject to a series of covenants and restrictions customary for transactions of this type. These covenants and restrictions include (i) that the IPv4 Issuer maintains a liquidity reserve account to be used to make required payments in respect of the IPv4 Notes such amount considered restricted cash, (ii) provisions relating to optional and mandatory prepayments, including specified make-whole payments in the case of certain optional prepayments of the IPv4 Notes prior to the monthly payment date in May of 2028, (iii) certain indemnification payments in the event, among other things, that the transfers of the assets pledged as collateral for the IPv4 Notes are in stated ways defective or ineffective and (iv) covenants relating to recordkeeping, access to information and similar matters. As provided in the IPv4 Base Indenture, the IPv4 Notes are also subject to rapid amortization in the event of a failure to maintain a stated debt service coverage ratio as defined in the IPv4 Indenture. A rapid amortization may be cured if the debt service coverage ratio exceeds a certain threshold for a certain period of time, upon which cure, regular amortization, if any, will resume. In addition, if certain utilization thresholds are not met (i.e., the proportion of IP addresses which are leased to the total number of IP addresses owned by the IPv4 Issuer falls below certain thresholds), the IPv4 Issuer will be required to apply collections to the repayment of the IPv4 Notes and in certain circumstances, the noteholders will have the ability to direct a sale of the IP Address Assets, in whole or in part, pursuant to the terms set forth in the IPv4 Indenture. The IPv4 Notes are also subject to certain customary events of default, including events relating to non-payment of required interest, principal or other amounts due on or with respect to the IPv4 Notes, failure to comply with covenants within certain time frames, certain bankruptcy events, breaches of specified representations and warranties, failure of security interests to be effective and certain judgments.

*Limitations Under the Indentures*

The indentures governing the 2027 Notes, the 2027 Mirror Notes and the 2026 Notes (the "Indentures"), among other things, limit the ability of Group and its restricted subsidiaries to incur indebtedness; to pay dividends or make other distributions; to make certain investments and other restricted payments; to create liens; to consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; to incur restrictions on the ability of a subsidiary to pay dividends or make other payments; and to enter into certain transactions with its affiliates. There are certain exceptions to the limitations on the ability to incur indebtedness under the Indentures, including IRU agreements incurred in the normal course of business and any additional indebtedness if Group's consolidated leverage ratio, as defined in the Indentures, is less than 6.0 to 1.0 or Group's fixed charge coverage ratio, as defined in the Indentures, is 2.0 to 1.0 or greater. Group and its subsidiaries can also incur unlimited liens (which can be used, together with capacity under the debt covenant, to incur additional secured indebtedness) if Group's consolidated secured leverage ratio, as defined in the Indentures, is less than 4.0 to 1.0. Under the Indentures, Group and its restricted subsidiaries can pay dividends, make other distributions, make certain investments and make other restricted payments under certain circumstances, including if, after giving pro forma effect to such restricted payment, Group could still incur $1 of "Ratio Debt,", as defined (i.e., either its consolidated leverage ratio is less than 6.0 to 1.0 or its fixed charge coverage ratio is 2.0 to 1.0 or greater). As of September 30, 2024, Group's consolidated leverage ratio was below 6.0, Group's consolidated secured leverage ratio was below 4.0 and Group's fixed charge coverage ratio was above 2.0. As of September 30, 2024, a total of $345.6 million was unrestricted and permitted for restricted payments, including dividends and stock purchases.

*Interest Rate Swap Agreement*

As of September 30, 2024, the Company was party to an interest rate swap agreement (the "Swap Agreement") that has the economic effect of modifying the fixed interest rate obligation associated with its 2026 Notes to a variable interest rate obligation based on the Secured Overnight Financing Rate ("SOFR") so that the interest payable on the 2026 Notes effectively became variable based on overnight SOFR. The critical terms of the Swap Agreement match the terms of the 2026 Notes, including the notional amount and the optional redemption date on February 1, 2026. The Company did not elect hedge accounting for the Swap Agreement. The Swap Agreement is recorded at its fair value at each reporting period, and the Company incurs gains and losses due to changes in market interest rates. By entering into the Swap Agreement, the Company has assumed the risk associated with variable interest rates. Changes in interest rates affect the valuation of the Swap Agreement that the Company recognizes in its condensed consolidated statements of comprehensive income. The values that the Company reports for the Swap Agreement as of each reporting date are recognized as "interest expense including change in valuation – interest rate swap agreement" with the corresponding amounts included in assets or liabilities in the Company's condensed consolidated balance sheets.

As of September 30, 2024, the fair value of the Swap Agreement was a net liability of $ 29.9 million, of which $20.6 million is presented with accrued and other current liabilities and $9.4 million is presented with other long-term liabilities. As of December 31, 2023, the fair value of the Swap Agreement was a net liability of $38.7 million of which $21.6 million is presented with accrued and other current liabilities and $17.1 million is presented with other long-term liabilities. In the three and nine months ended September 30, 2024 and 2023, the Company recorded unrealized gains (losses) related to the Swap Agreement, that are included in interest expense. As of September 30, 2024, the Company has made a $31.8 million deposit with the counterparty to the Swap Agreement. If the fair value of the Swap Agreement exceeds a net liability of $31.8 million, the Company will be required to deposit additional funds with the counterparty equal to the net liability fair value. As of September 30, 2024, $29.9 million of the deposit was restricted and $ 1.9 million was unrestricted.

Under the Swap Agreement, the Company pays the counterparty a semi-annual payment based upon overnight SOFR plus a contractual interest rate spread, and the counterparty pays the Company a semi-annual fixed 3.50% interest payment. The settlement payment is made each November and May until the Swap Agreement expires in February 2026. Under the settlement for May 2023, the Company paid $9.5 million to the counterparty for a net cash interest cost of $ 9.5 million for the period from November 1, 2022 to April 30, 2023. Under the settlement for November 2023, the Company paid $12.0 million to the counterparty for a net cash interest cost of $12.0 million for the period from May 1, 2023 to October 31, 2023. Under the settlement for May 2024, the Company paid $ 12.1 million to the counterparty for a net cash interest cost of $12.1 million for the period from November 1, 2023 to April 30, 2024.

**4. Commitments and contingencies**:

*Current and potential litigation*

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 circuits for which it is reasonably possible to result in a loss of up to $4.2 million in excess of the amount accrued at September 30, 2024.

In the ordinary 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. 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.

**5. Income taxes:**

The components of (loss) income before income taxes consist of the following (in thousands):

| | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 | Nine Months Ended September 30, 2024 | Nine Months Ended September 30, 2023 |
|---|---|---|---|---|
| Domestic | $ (77,401) | $ (58,402) | $ (193,603) | $ 1,057,523 |
| Foreign | (2,611) | (11,944) | (11,035) | (17,834) |
| Total | $ (80,012) | $ (70,346) | $ (204,638) | $ 1,039,689 |

**6. Common stock buyback program and stock options and award plan:**

The Company's Board of Directors has approved purchases of shares of the Company's common stock under a buyback program (the "Buyback Program") through December 31, 2025. As of September 30, 2024, there was $22.4 million remaining for purchases under the Buyback Program. In June 2024, the Company purchased 153,322 shares of its common stock for $ 8.0 million at an average share price of $51.97. There were no purchases of common stock in the three months or the nine months ended September 30, 2023 or in the three months ended September 30, 2024.

**7. Dividends on common stock:**

On November 6, 2024, the Company's Board of Directors approved the payment of a quarterly dividend of $ 0.995 per common share. This estimated $47.2 million dividend payment is expected to be made on December 6, 2024.

The payment of any future dividends and any other returns of capital, including stock buybacks will be at the discretion of the Company's Board of Directors and may be reduced, eliminated or increased and will be dependent upon the Company's financial position, results of operations, available cash, cash flow, capital requirements, limitations under the Company's debt indentures and other factors deemed relevant by the Company's Board of Directors. The Company is a Delaware corporation and under the General Corporation Law of the State of Delaware, distributions may be restricted including a restriction that distributions, including stock purchases and dividends, do not result in an impairment of a corporation's capital, as defined under Delaware law. The Indentures limit the Company's ability to return cash to its stockholders.

**8. Related party transactions:**

*Office leases*

The Audit Committee of the Company's Board of Directors (the "Audit Committee") reviews and approves all transactions with related parties.

The Company's headquarters is located in an office building owned by Sodium LLC whose owner is the Company's Chief Executive Officer and Chairman, David Schaeffer. The fixed annual rent for the headquarters building is $1.0 million per year plus an allocation of taxes and utilities. The lease began in May 2015, and the lease term was for five years. In February 2020, the lease term was extended to May 2025.The lease is cancellable at no cost by the Company upon 60 days' notice.

On January 6, 2023, the Company entered into two lease agreements (the "New Leases"), one with Thorium LLC ("Thorium") and one with Germanium LLC ("Germanium"), entities owned by the Company's Chief Executive Officer. The first of the New Leases is with Thorium for 54,803 square feet of office space, which serves as office space for the Company replacing a portion of its office space in the Northern Virginia area ("Office Lease"). The second of the New Leases is with Germanium LLC for 1,587 square feet of technical space which serves as network operations space for the Company ("Network Operations Lease"). The term for each of the New Leases is five years beginning on April 1, 2023. Both of the New Leases are cancellable by the Company without penalty upon 60 days written notice. The Company took occupancy of the office space and network operations space in April 2023. The amount of fixed annual rent during the term of the Office Lease is $1.2 million, and the Company is responsible for paying its proportionate share of the building's operating expenses that exceed a 2023 base year. The amount of fixed annual rent for the Network Operations Lease is $34,914, and the Company is also responsible for paying its metered utility costs and a proportionate share of the building's other operating expenses that exceed a 2023 base year.

On July 25, 2023 the Company entered into a Second Amendment to the lease agreement (the "Amendment"), with Germanium which amends the Network Operations Lease to lease an additional 7,369 square feet on the first floor of the building, beginning on August 1, 2023, in connection with the planned expansion of the technical space. This includes 4,987 square feet for an auditorium suitable for training and 2,382 square feet for the data center in the building. The amended Network Operations Lease remains cancellable by the Company without penalty upon 60 days written notice. The Amendment provides for $162,118 of additional fixed annual rent during the term of the Network Operations Lease, plus a proportionate share of real estate taxes and operating expenses and separately metered utilities expense.

The Company paid $0.8 million and $0.9 million in the three months ended September 30, 2024 and 2023, respectively, and $1.6 million and $2.5 million in the nine months ended September 30, 2024 and 2023, respectively, for rent and related costs (including taxes and utilities) for these leases.

**9. Segment information:**

The Company operates as one operating segment. The Company's service revenue by geographic region and product class and long-lived assets by geographic region are as follows (in thousands):

**Three Months Ended September 30, 2024**

| Revenues | On-net | Off-net | Wavelength | Non-core | Total |
|---|---|---|---|---|---|
| North America | $ 106,055 | $ 104,485 | $ 5,278 | $ 4,060 | $ 219,878 |
| Europe | 23,801 | 5,441 | — | 58 | 29,300 |
| South America | 1,927 | 222 | — | 8 | 2,157 |
| Oceania | 4,575 | 1,118 | 9 | 13 | 5,714 |
| Africa | 128 | 25 | — | — | 153 |
| Total | $ 136,486 | $ 111,291 | $ 5,287 | $ 4,139 | $ 257,202 |

**Three Months Ended September 30, 2023**

| Revenues | On-net | Off-net | Wavelength | Non-core | Total |
|---|---|---|---|---|---|
| North America | $ 102,103 | $ 123,164 | $ 2,992 | $ 11,400 | $ 239,659 |
| Europe | 21,913 | 5,550 | — | 12 | 27,475 |
| South America | 1,862 | 287 | — | 1 | 2,150 |
| Oceania | 4,011 | 1,945 | — | 4 | 5,960 |
| Africa | 161 | 24 | — | — | 185 |
| Total | $ 130,050 | $ 130,970 | $ 2,992 | $ 11,417 | $ 275,429 |

**Nine Months Ended September 30, 2024**

| Revenues | On-net | Off-net | Wavelength | Non-core | Total |
|---|---|---|---|---|---|
| North America | $ 326,108 | $ 320,238 | $ 12,230 | $ 14,407 | $ 672,983 |
| Europe | 70,584 | 16,000 | — | 284 | 86,868 |
| South America | 5,396 | 678 | — | 35 | 6,109 |
| Oceania | 13,349 | 3,929 | — | 74 | 17,352 |
| Africa | 428 | 73 | — | — | 501 |
| Total | $ 415,865 | $ 340,918 | $ 12,230 | $ 14,800 | $ 783,813 |

| Nine Months Ended September 30, 2023<br>Revenues | On-net | Off-net | Wavelength | Non-core | Total |
|---|---|---|---|---|---|
| North America | $ 290,622 | $ 251,278 | 4,578 | $ 20,069 | $ 566,547 |
| Europe | 65,880 | 14,640 | — | 51 | 80,571 |
| South America | 5,159 | 522 | — | 2 | 5,683 |
| Oceania | 11,659 | 3,719 | — | 32 | 15,410 |
| Africa | 536 | 75 | — | — | 611 |
| Total | $ 373,856 | $ 270,234 | $ 4,578 | $ 20,154 | $ 668,822 |

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| **Long-lived assets, net** | | |
| North America | $ 2,017,854 | $ 1,959,704 |
| Europe and other | 168,138 | 163,034 |
| Total | $ 2,185,992 | $ 2,122,738 |

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. Factors that could cause or contribute to these differences include those discussed in "Item 1A. Risk Factors," as well as those discussed elsewhere. You should read "Item 1A. Risk Factors" and "Special Note Regarding Forward-Looking Statements." 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:

Risks related to the COVID-19 pandemic; vaccination and in office requirements; delays in the delivery of networking equipment and other services from certain vendors; economic risks; reductions in our prices in an inflationary economy; events beyond our control that result in an inability to provide services to customers or increase the costs or reduce the profitability of providing services; our ability to realize the anticipated benefits of the acquisition of the Sprint Business (as defined below) and difficulty integrating the Sprint Business; our ability to retain existing customers and continue to add new customers; shifts to remote work impacting our ability to retain and add customers; vacancy rates in our buildings; our ability to efficiently manage growth; our ability to retain existing enterprise customers, maintain the level of services provided to enterprise customers or attract new enterprise customers; reduction of the attractiveness of our business due to certain employees desiring to work remotely; our ability to successfully make or integrate acquisitions or enter into strategic alliances; risks related to data center expansions; risks related to environmental, social and governance matters; our ability to maintain relationships with other network providers; competition in our industry; the potential for the telephone companies and cable companies to provide better delivery of certain Internet content; cybersecurity risks; the ability of our information systems to support our customers, network operations, sales, billing and financial reporting; our insurance coverage may be insufficient; the lack of a Legacy Registration Services Agreement with the American Registry for Internet Numbers or any other regional Internet registry with respect to a substantial portion of our IPv4 addresses; our ability to obtain or maintain the agreements necessary to augment or maintain our network; delays and problems of our off-net business; interruptions of services from fiber providers; increased reliance on agreements with landowners; risks related to climate change; risks related to maintaining and repairing our owned fiber network; risks related to our network infrastructure equipment being manufactured or provided by a limited number of network infrastructure vendors; risks related to international operations; liabilities for the content disseminated through our network or for network failures, delays or errors in transmissions; risks related to privacy regulations and changes in laws, rules and enforcement; difficulties in censoring content on the Internet; tax risks; our ability to make payments on our indebtedness as they become due; our ability to incur more debt, restrictions on our business contained in the agreements governing our debt obligations; our ability to service our indebtedness; and risks related to our cash and cash equivalents held at financial institutions in amounts in excess of insured limits, as well as other risks discussed from time to time in our filings with the Securities and Exchange Commission, including, without limitation, this report and our quarterly reports on Form 10-Q for the quarterly periods ended March 31, 2024 and June 30. 2024, and our annual report on Form 10-K for the year ended December 31, 2023.

**Acquisition of Sprint Communications**

On May 1, 2023 (the "Closing Date"), Cogent Infrastructure, LLC (formerly Cogent Infrastructure, Inc.), a Delaware corporation and our direct wholly owned subsidiary, closed on its acquisition of the U.S. long-haul fiber network (including the non-U.S. extensions thereof) of Sprint Communications and its subsidiaries (the "Sprint Business") in accordance with the terms and conditions of the Membership Interest Purchase Agreement (the "Purchase Agreement"), dated September 6, 2022, by and among us, Sprint Communications LLC, a Kansas limited liability company ("Sprint Communications") and an indirect wholly owned subsidiary of T-Mobile US, Inc., a Delaware corporation ("T-Mobile"), and Sprint LLC, a Delaware limited liability company and an indirect wholly owned subsidiary of T-Mobile (the "Seller"). On the Closing Date, we purchased from the Seller all of the issued and outstanding membership interests (the "Purchased Interests") of Wireline Network Holdings LLC, a Delaware limited liability company that, following an internal restructuring and divisive merger, held Sprint Communications' assets and liabilities relating to the Sprint Business (such transactions contemplated by the Purchase Agreement, collectively, the "Transaction").

**Purchase Price**

On the Closing Date, we consummated the Transaction pursuant to the terms of the Purchase Agreement, providing a purchase price of $1 payable to the Seller for the Purchased Interests, subject to customary adjustments, including working capital (the “Working Capital Adjustment”), as set forth in the Purchase Agreement. As consideration for the Purchased Interests, the Working Capital Adjustment (primarily related to acquired cash and cash equivalents of an estimated $43.4 million at the Closing Date in order to fund the international operations of the Sprint Business) resulted in us making a payment to the Seller of $61.1 million on the Closing Date. In April 2024, an additional Working Capital Adjustment of $5.0 million was paid to the Seller.

*Short-term Lease Payment*

The Purchase Agreement also provides for an estimated payment of $28.1 million ($19.8 million net of discount) from the Seller to us related to acquired short-term operating lease obligations (the “Short-term Lease Payment”). The Short-term Lease Payment will be paid from the Seller to us in four equal payments in months 55 to 58 after the Closing Date. The Short-term Lease Payment was recorded at its present value resulting in a discount of $8.4 million. The interest rate used in determining the present value was derived considering rates on similar issued debt instruments with comparable durations, amongst other market factors. The determination of the discount rate requires some judgment. During the third quarter of 2023, the Short-term Lease Payment was reduced by $4.8 million and in the first quarter of 2024 the Short-term Lease Payment, net of discount, was reduced by an additional $17.0 million.

*IP Transit Services Agreement*

On the Closing Date, we entered into an agreement for IP transit services (“IP Transit Services Agreement”), pursuant to which TMUSA will pay us an aggregate of $700.0 million, consisting of (i) $350.0 million in equal monthly installments of $29.2 million per month during the first year after the Closing Date and (ii) $350.0 million in equal monthly installments of $8.3 million per month over the subsequent 42 months. Under the IP Transit Services Agreement., TMUSA paid us $25.0 million and $87.5 million, during the three months ended September 30, 2024 and 2023, respectively, and $179.2 million and $116.7 million during the nine months ended September 30, 2024 and 2023, respectively.

The IP Transit Services Agreement was recorded in connection with the Transaction at its discounted present value resulting in a discount of $79.6 million. The interest rate used in determining the present value was derived considering rates on similar issued debt instruments with comparable durations, amongst other market factors. The determination of the discount rate requires some judgment.

*Transition Services Agreement*

On the Closing Date, the Buyer entered into a transition services agreement (the “TSA”) with the Seller, pursuant to which the Seller will provide to the Buyer, and the Buyer will provide to the Seller on an interim basis following the Closing Date, certain specified services (the “Transition Services”) to ensure an orderly transition following the separation of the Sprint Business from Sprint Communications. The services to be provided by the Seller to the Buyer include, among others, information technology support, back office and finance, real estate and facilities, vendor and supply chain management, including the payment and processing of vendor invoices for the Company and human resources. The services to be provided by the Buyer to the Seller include, among others, information technology and network support, finance and back office and other wireless business support.

The Transition Services are generally intended to be provided for a period of up to two years following the Closing Date, although such period may be extended for an additional one-year term by either party upon 30 days’ prior written notice. The fees for the Transition Services are calculated using either a per service monthly fee or an hourly rate for the employees allocated to provide such services. Any third-party costs incurred in providing the Transition Services are passed on to the party receiving such services at cost for the two-year period. Amounts paid for the Sprint Business by T-Mobile are reimbursed at cost.

Either party to the TSA may terminate the agreement with respect to any individual service in full for convenience upon 30 days' prior written notice for certain services and reduced for other services after a 90-day period. The TSA may be terminated in its entirety if the other party has failed to perform any of its material obligations and such failure is not cured within 30 days. The TSA provides for customary indemnification and limits on liability. Amounts billed under the TSA are due 30 days from receipt of the related invoice. Amounts billed to us under the TSA are primarily for reimbursement at cost of payments to vendors of the Sprint Business until these vendors are fully transitioned to us. During the three and nine months ended September 30, 2024, we were billed $3.0 million and $26.3 million, respectively, as due to the Seller under the TSA. During the three and nine months ended September 30, 2023, we were billed $101.2 million and $218.0 million, respectively as due to the Seller under the TSA. During the three and nine months ended September 30, 2024, we paid to the Seller $3.7 and $91.9 million, respectively, under the TSA. During the three and nine months ended September 30, 2023 we paid $153.1 million to the Seller under the TSA. Amounts billed under the TSA are due 30 days from receipt of the related invoice. As of September 30, 2024, we owed $1.6 million to the Seller under the TSA.

*Severance reimbursement*

The Purchase Agreement also provides for reimbursement from the Seller to the Buyer for qualifying severance expenses incurred. Total qualifying severance expenses were $28.6 million of which $12.3 million were recorded in the nine months ended September 30, 2024. No reimbursement amounts were recorded in the three and nine months ended September 30, 2023 or three months ended September 30, 2024.

*Acquisition-Related Costs*

In connection with the Transaction and negotiation of the Purchase Agreement, we incurred a total of $13.6 million of professional fees and other acquisition related costs (not including severance costs). Acquisition related costs were $0.4 million for the three months ended September 30, 2023 and $21.4 million and $1.5 million for the nine months ended September 30, 2024 and 2023, respectively. There were no acquisition related costs in the three months ended September 30, 2024.

*Other Services Provided to the Seller*

In addition, on the Closing Date, we entered into a commercial agreement (the "CSA") with TMUSA for colocation and connectivity services, pursuant to which we will provide such services to TMUSA for a per service monthly fee plus certain third-party costs incurred in providing the services. Under the CSA, we recorded service revenue of $4.1 million and $8.0 million during the three months ended September 30, 2024 and 2023, respectively, and $13.2 million and $15.3 million during the nine months ended September 30, 2023, respectively.

**Competitive Advantages**

We believe we address many of the data communications needs of businesses large and small, communications service providers and other bandwidth-intensive organizations by offering them high-quality, high-speed Internet access and private network services at attractive prices. After our acquisition of the Sprint Business, we began offering services to larger enterprise customers. We believe that our organization has the following competitive advantages:

*Low Cost of Operation:* We believe that the wireline telecom industry is undergoing, and will continue to face, significant price deflation for its applications and services. This price deflation is a result of a variety of factors including increased competition, enhanced substitutability of certain products and services and the continued impact of Moore’s Law, which has driven down the cost of technology, particularly for fiber optic Wavelength Division Multiplexing equipment and optically interfaced routers. Faced with the backdrop of continued price deflation in our industry, we have made a series of discreet choices around our network design, operating strategy and product offerings that are consistent with our objective of becoming the low-cost operator in our industry. Since our initiation of operations, this strategy has resulted in a rapid decline in our cost to transmit bits, which has increased our margins and decreased our capital intensity as measured by our capital expenditures per total revenues. Important components of our low-cost operating strategy include:

- *One Network Protocol*. Upon our founding, we selected to operate our network solely using Ethernet protocol. We made this selection in order to take advantage of the significantly greater installed base and lower cost of Ethernet network equipment versus other protocols, the substantially lower costs associated with operating and maintaining one network protocol and the continued benefits of the rapid price performance ratio improvements of Ethernet-related equipment. Our single network protocol allows us to avoid many of the costs that our competitors who operate circuit-switched, time-division multiplexing (“TDM”) and hybrid fiber coaxial networks incur related to provisioning, monitoring and maintaining multiple transport protocols. Selecting one operating protocol has also had positive effects in terms of our operating overhead and the simplicity of our organization. We believe the vast majority of our competitors currently operate their networks with multiple protocols and we believe that attempts to upgrade their networks to one protocol would be operationally challenging and costly.

- *Our IP Network*. We have acquired a large portfolio of dark fiber leases from 360 dark fiber vendors from around the world sourced from the excess inventory of existing networks. The nature of this portfolio and the individual leases provide us long-term access to dark fiber at attractive rates and, in many cases, the opportunity to extend these leases for multiple terms. On average, a modest number of our dark fiber leases come up for renewal each year. In addition, with our acquisition of the Sprint Business, we now own a nationwide domestic fiber network (the “Sprint Network”). Acquiring the Sprint Network allows us to capitalize on the benefits of owning network without significant upfront capital investment. The Sprint Network is mostly complementary to our existing leased dark fiber network, offers unique geographic routes and will allow us to reduce our reliance on leased dark fiber. This strategic combination of owned and leased dark fiber will help to ensure a robust and reliable network and enables us to connect via dark fiber to virtually any geographic route or facility we require on a long-term, cost-effective basis.

- *Optical Wave Network -* Acquiring the Sprint Network also has allowed us to construct a wavelength network using the predominantly owned fiber. This enables us to expand our product offerings to include optical wavelength and optical transport services. We are selling these services to our existing customers, customers acquired with the Sprint Business and to new customers who require dedicated optical transport connectivity without the capital and ongoing expenses associated with owning and operating network infrastructure. We intend to offer this service in approximately 800 data centers in the United States, Mexico and Canada by the end of 2024. We believe our wavelength service has the advantages of unique routes, ubiquitous service locations, faster provisioning times and lower prices.

  *Narrow and Focused Product Set*. Since our founding, we have strategically focused on delivering a very narrow product set to our customers. The vast majority of our revenue is driven by or related to our high-capacity, bi-directional, symmetric Internet access services which can be accessed on-net in multi-tenant office buildings (“MTOBs”) and carrier neutral data centers (“CNDCs”) or off-net through other carriers’ “last mile” connections to customer facilities. The addition of optical wave and optical transport services and our decision to continue to support MPLS virtual private network (“VPN”) services for our acquired customers are consistent with this strategy. There are significant cost advantages as a result of this narrow product set. We believe that the relative size of our salesforce training, support and overhead is lower than comparable telecom providers that tend to offer a broader, one-stop shop product set to their client base.

- *Scalable Network Equipment and Hub Configurations* . Due to our single network protocol and narrow product set, our transmission and network operations rely mainly on two sets of equipment for operation. The addition of optical waves and optical transport services to our product set has not altered this configuration. In order to further scale our operating leverage, we have systematically reused older equipment in less dense portions of our network. Due to interoperability between the generations of products, we are able to transfer older equipment from our core, high-traffic areas to less congested portions of our network. The result of this dynamic grooming process is that we are able to utilize our equipment for materially longer periods than the expected life of this equipment, thereby reducing our capital investment in our network. We design and build all of our network hubs, points of presence, and data centers to the same standards and configurations. This replication strategy provides us scale benefits in equipment purchases, training, and maintenance.

*Greater Control and Superior Delivery* . Our on-net service does not rely on circuits that must be provisioned by a third-party carrier. In our on-net MTOBs, we provide our customers the entire network, including the “last mile” and the in-building wiring connecting to our customer’s suite. In our CNDCs, we are collocated with our customers. As a result, only a cross-connection within the data center is required to provide our services to our customers, including our newer optical wave and optical transport offerings. The structure of our on-net service provides us with more control over our service, quality and pricing. It also allows us to provision services more quickly and efficiently than provisioning services on a third-party carrier network. The vast majority of our on-net Internet and VPN services can be installed in less than two weeks, which is materially faster than the installation times for some of our incumbent competitors.

*High-Quality, Reliable Service.* We are able to offer high-quality Internet service due to our network design and composition. We believe that we deliver a high level of technical performance because our network is optimized for packet routed traffic. Its design increases the speed and throughput of our network and reduces the number of data packets dropped during transmission compared to traditional circuit-switched networks. We believe that our network is more reliable and carries traffic at lower cost than networks built as overlays to traditional circuit-switched, or TDM networks.

*Large Addressable Market.* We have systematically evaluated and chosen our network extensions to buildings, data centers and markets based upon a rigorous set of criteria to evaluate the economic opportunity of network locations. Additional factors relevant to our pursuit of new buildings include the willingness of building owners to grant us access rights, the availability of optical fiber networks to serve those buildings, the costs to connect buildings to our network and equipment availability. We have also begun to evaluate the sustainability of new locations by evaluating the LEED Green Rating of Buildings, the potential to source renewable energy at locations and the potential impact of climate change on a location including proximity to water and the risk of flooding. Our network is connected to 3,424 total buildings located in 260 metropolitan markets globally. These buildings include 1,870 large MTOBs (totaling over 1.0 billion square feet of office space) in major North American cities where we offer our services to a diverse set of high-quality corporate customers within close physical proximity of each other. These buildings also include 1,627 CNDCs located in 1,459 buildings in North America, Europe, South America, Oceania and Africa where our net-centric customers directly interconnect with our network. We also operate 95 of our own data centers 43 of which were converted from facilities acquired with the Sprint Business) across the United States and in Europe, which comprise over 1.8 million square feet of floor space, offer 169 MW of power and are directly connected to our network. We believe that these network points of presence strategically position our network to attract high levels of Internet traffic and maximize our revenue opportunities and profitability.

*Balanced, High-Traffic IP Network.* Since its inception, our network has grown significantly in terms of its geographic reach, customer connections, and traffic. We currently serve 8,212 access networks as well as numerous large and small content providers and 47,613 corporate customer connections and 16,447 enterprise customer connections. Because of these bases of customers who distribute (content providers) and receive (access networks) content on our network, we believe that the majority of all the traffic remains “on-net” by both originating and terminating on our network. This control of traffic is an important differentiator as it increases our service reliability and speed of traffic delivery. The increasing share of traffic delivered from content providers to access networks also enhances our margins as we are compensated by both the originating customer and the terminating customer. The breadth of our network, extensive size of our customer base, and the volume of our traffic enables us to be one of a handful of Tier 1 networks that are interconnected on a settlement-free basis. This Tier 1 network peering status broadens our geographic delivery capability and materially reduces our network costs.

*Proven and Experienced Management Team*. Our senior management team is composed of seasoned executives with extensive expertise in the telecommunications industry as well as knowledge of the markets in which we operate. The members of our senior management team have an average of over 20 years of experience in the telecommunications industry and many have been working together at the Company for several years. Several members of the senior management team have been working together at the Company since 2000. Our senior management team has designed and built our network and, during our formative years, led the integration of network assets we acquired through 13 significant acquisitions prior to our acquisition of the Sprint Business and managed the expansion and growth of our business. We anticipate that our management team will successfully manage the integration of the Sprint Business into our current operations.

**Our Strategy**

We intend to remain a leading provider of high-quality, high-speed Internet access and private network services and to continue to improve our profitability and cash flow. The principal elements of our strategy include:

*Grow our Corporate Customer Base.* Our on-net corporate customers are typically small to medium-sized businesses connected to our network through MTOBs or connected to our network through one of our on-net CNDCs. We generally sell two types of services to our corporate customers: dedicated internet access and private network services. We typically sell dedicated internet access at the same price per connection as our competitors, but our customers benefit from our significantly faster speeds and rapid installation times. These customers are increasingly integrating off-site data centers and cloud services into their IT infrastructure in order to take advantage of the safety, security and redundancy that is offered by locating company processing power, storage and software at a data center. An important part of this new infrastructure is a high-speed, dedicated internet connection from the corporate premises to the data center and the Internet and from one corporate premises to other corporate premises. We believe that the importance of data centers will increasingly lead tenants to reconfigure their communications infrastructure to include dedicated internet access across their locations.

*Expand our Business with Enterprise Customers*. With our acquisition of the Sprint Business, we acquired a number of larger enterprise customers. While we are in the process of terminating certain non-core services to these customers at the end of their current term, we have continued to provide our core services to enterprise customers and elected to provide MPLS services, a new service for the Company, as well. We have not previously focused our sales efforts on larger enterprise customers. Since the acquisition of the Sprint Business, we have formed dedicated sales teams who are tasked with preserving existing business with and seeking new sales from enterprise customers.

*Increase our Share of the Net-Centric Market*. We are currently one of the leading providers of high-speed internet access to a variety of content providers and access networks across the world. We intend to further load our high-capacity network as a result of the growing demand for high-speed Internet access generated by these types of bandwidth-intensive applications such as over-the-top media services, online gaming, video, Internet of Things, voice over IP, remote data storage, and other services. We expect that we will continue to grow our shares of these segments by offering our customers a series of attractive features including:

- Geographic breadth – We have one of the broadest CNDC footprints in the industry and currently offer network services in 56 countries – as net-centric customers seek a more international audience this footprint is a significant advantage;

- High capacity and reliability – We offer 100 Mbps to 100 Gbps ports in all of the CNDCs and 400 Gbps in selected locations on our network, which differentiates the capacity choices we provide our net-centric clients;

- Balanced customer base – Our leading share of content providers and access networks increases the amount of traffic that originates and terminates on our network thereby reducing latency and enhancing reliability;

- Large and dedicated salesforce – Our team of net-centric sales professionals is one of the largest salesforces in this industry segment and enables us to better serve this customer segment while also identifying new sales opportunities and gaining new business and customers; and

- Wave and optical transport services – We began offering wave and optical transport services to our net-centric customers who require these high bandwidth services.

*Pursue On-net Customer Growth.* Our high-capacity network provides us with the ability to add a significant number of customers to our network with minimal direct incremental costs. We intend to increase usage of our network and operational infrastructure by adding customers in our existing on-net buildings, as well as developing additional markets and connecting more MTOBs and CNDCs to our network. We are also upgrading our network and operational infrastructure to provide wave and optical transport services in more of our on - net buildings. We emphasize our on-net services because they generate greater profit margins and we have more control over service levels, quality and pricing, and our on-net services are provisioned in considerably less time than our off-net services. Our fiber network connects directly to our on-net customers' premises and we pay no local access ("last mile") charges to other carriers to provide our on-net services.

*Continue to Improve our Sales Efforts and Productivity.* A critical factor in our success has been our investment and focus on our sales and marketing efforts. We seek to maintain a consistent level of sales productivity as measured by the number of connections sold per salesperson per month, considering adjustments to the changing mix of products sold and installed. In order to gain market share in our targeted businesses, we expect to continue our sales efforts including introducing strategies and tools to optimize and improve our sales productivity. We also intend to leverage the skills and relationships of our sales force to sell new service offerings, in particular, optical wavelength and optical transport services. We have developed several training programs that are directed toward increasing our sales representative tenure and increasing our sales representative productivity. In addition, we have required all of our employees to work in the office on a full-time basis, thereby providing additional opportunities for management coaching and oversight in order to increase productivity.

*Expand our Off-net Corporate and Enterprise Internet Access and VPN Business* . We have agreements with over 700 national and international carriers providing us last mile network access to over 6 million commercial buildings that are lit by fiber optic cable in the 56 countries we serve and that are not currently served by our network. We believe these agreements broaden our addressable market for corporate dedicated Internet access and private network services and enhances our competitive position through the ability to provide enterprise-wide connectivity for corporate customers. In order to take advantage of this large set of commercial buildings, we have developed an automated process to enable our salesforce to identify opportunities in the off-net market for dedicated Internet access and private network services and to quickly offer pricing proposals to potential customers. We continue to negotiate reduced pricing under our numerous carrier agreements that enable us to reduce our cost of off-net services, which enhances our competitive position in the marketplace.

*Expand our Product Offerings to Include Wavelength and Optical Transport Services* . In connection with our acquisition of the Sprint Business, we expanded our offerings of optical wavelength and optical transport services over our fiber network. We are selling these services to our existing customers, customers acquired with the Sprint Business and to new customers who require dedicated optical transport connectivity without the capital and ongoing expenses associated with owning and operating network infrastructure. We currently offer wavelength services in 657 data centers and intend to offer this service in approximately 800 data centers in the United States and Mexico by the end of 2024. We believe our wavelength service has the advantages of unique routes, ubiquitous service locations, faster provisioning times and lower prices.

*Expand our Data Center Footprint*. We currently operate 95 of our own data centers across the United States and Europe. As part of our acquisition of the Sprint Business, we acquired multiple Sprint facilities that previously housed Sprint equipment. We evaluated the suitability of these facilities for conversion to commercial data center space and began repurposing suitable facilities. Repurposing these facilities included removing unused, obsolete equipment and racks, and upgrading or installing new HVAC systems, uninterruptable power supplies ("UPS"), backup generators and fire suppression systems as well as other structural changes. By September 30, 2024, we had converted 43 former Sprint facilities. In connection with this conversion process we expect to decommission certain legacy Cogent data centers.

*Increase our Leasing of IPv4 Address Space* . We lease IPv4 address space to our customers, both on a standalone basis and as a complement to a customer's Internet access services with us. We provide a small number of free IPv4 addresses to our dedicated Internet access customer as well. We currently own approximately 38 million IPv4 addresses, of which 9.9 million were recently acquired at the closing of the Sprint Business acquisition. We currently lease 12.9 million of our IPv4 addresses to our customers on contracts with service terms ranging from one month to five years. We intend to continue to lease IPv4 addresses to our customers as well as explore alternatives for monetizing our IPv4 address inventory.

**Results of Operations**

*Three Months Ended September 30, 2024 Compared to the Three Months Ended September 30, 2023*

Our management reviews and analyzes several key financial measures in order to manage our business and assess the quality and variability of our service revenue, operating results and cash flows. The following summary tables present a comparison of our results of operations with respect to certain key financial measures. The comparisons illustrated in the tables are discussed in greater detail below.

| | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 | Percent Change |
|---|---|---|---|
| | (in thousands) | | |
| Service revenue | $ 257,202 | $ 275,429 | (6.7)% |
| Network operations expenses (1) | 161,552 | 173,594 | (6.9)% |
| Selling, general, and administrative (“SG&A) expenses (2) | 67,664 | 65,308 | 3.6 % |
| Sprint acquisition costs | — | 351 | NM % |
| Depreciation and amortization expenses | 85,815 | 86,734 | (1.1)% |
| Reduction to gain on bargain purchase – Sprint Business | — | (3,332) | NM |
| Interest income – IP Transit Services Agreement | 5,438 | 10,299 | (22.6)% |
| Interest expense, including change in valuation interest rate swap agreement | 26,877 | 29,023 | (7.4)% |
| Income tax benefit | 16,900 | 13,623 | 24.1 % |

(1) Includes non-cash equity-based compensation expenses of $469 and $370 in the three months ended September 30, 2024 and 2023, respectively.

(2) Includes non-cash equity-based compensation expenses of $7,406 and $7,041 in the three months ended September 30, 2024 and 2023, respectively.

NM – not meaningful

*Service Revenue*. We continually work to grow our total service revenue by increasing the number of potential customers that we can reach on our network. We do this by investing capital to expand the geographic footprint of our network, increasing the number of buildings that we are connected to, including CNDCs and MTOBs, and increasing our penetration rate into our existing buildings. These efforts broaden the global reach of our network and increase the size of our potential addressable market. We also seek to grow our service revenue by investing in our sales and marketing team. We typically sell corporate connections at similar pricing to our competitors, but our customers benefit from our significantly faster speeds, greater aggregate throughput, enhanced service level agreements and rapid installation times. In the net-centric market, we offer comparable services in terms of capacity but typically at significantly lower prices.

Our service revenue decreased by 6.7% from the three months ended September 30, 2023 to the three months ended September 30, 2024. Exchange rates positively impacted our service revenue by $0.2 million. All foreign currency comparisons herein reflect results for the three months ended September 30, 2024 translated at the average foreign currency exchange rates for the three months ended September 30, 2023. Our total service revenue decreased from the cancellation of low margin and non-core customers we acquired with the Sprint Business, and a reduction in revenue under the CSA agreement with TMUSA, more than offsetting the growth in customers from expanding our network, adding additional buildings to our network, increasing our penetration into the buildings connected to our network and gaining market share by offering our services at lower prices than our competitors.

Revenue recognition standards include guidance relating to any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, gross receipts taxes, Universal Service Fund fees and certain state regulatory fees. We record these taxes billed to our customers on a gross basis (as service revenue and network operations expense) in our condensed consolidated statements of comprehensive income. The impact of these taxes including the Universal Service Fund resulted in an increase to our revenues of $5.2 million from the three months ended September 30, 2023 to the three months ended September 30, 2024.

| | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 | Percent Change |
|---|---|---|---|
| **Other Operating Data** | | | |
| *Revenue by Customer Type – (thousands)* | | | |
| Corporate | $ 116,244 | $ 120,484 | (3.5)% |
| Net-centric | 91,873 | 94,936 | (3.2)% |
| Enterprise | 49,085 | 60,009 | (6.6)% |
| | | | |
| *Customer Connections by Customer Type - end of period* | | | |
| Corporate | 47,613 | 55,045 | (13.5)% |
| Net-centric | 62,273 | 62,291 | (0.0)% |
| Enterprise | 16,447 | 20,689 | (20.5)% |
| | | | |
| *Revenue – by Network Connection Type – (thousands)* | | | |
| On-net | $ 130,485 | $ 129,031 | 5.8 % |
| Off-net | 111,291 | 130,560 | (14.8)% |
| Wavelength | 5,287 | 2,992 | 76.7 % |
| Non-core | 4,139 | 12,846 | (67.8)% |
| | | | |
| *Customer Connections – by Network Connection Type - end of period* | | | |
| On-net | 87,655 | 89,623 | (0.7)% |
| Off-net | 32,420 | 36,766 | (12.2)% |
| Wavelength | 1,041 | 449 | 131.8 % |
| Non-core | 5,217 | 11,187 | (57.9)% |
| | | | |
| *Average Revenue Per Unit (ARPU)* | | | |
| ARPU on-net | $ 520 | $ 475 | 9.4 % |
| ARPU off-net | 1,138 | 1,156 | (1.0)% |
| ARPU wavelength | 1,964 | 2,312 | (15.0)% |
| Average Price per Megabit installed base | 0.23 | 0.30 | (23.9)% |

*Revenue and customer connections by customer type* . Our corporate customers generally purchase their services on a price per connection basis. Our net-centric customers generally purchase their services on a price per megabit-metered basis. We began to serve enterprise customers in connection with our acquisition of the Sprint Business. We define “enterprise” customers as large corporations (typically, Fortune 500 companies with greater than $5 billion in annual revenue) running Wide Area Networks (“WAN”) with several dozen to several hundred sites. Our enterprise customers generally purchase our services on a price per location basis.

On the Closing Date, we acquired 17,823 corporate customer connections, 5,711 net-centric customer connections and 23,209 enterprise customer connections with the Sprint Business. We classified the $39.5 million of May 2023 Sprint Business revenue as $20.1 million of monthly recurring revenue as enterprise revenue, $12.9 million of monthly recurring revenue as corporate revenue and $6.5 million of monthly recurring revenue as net-centric revenue.

Revenues from our corporate, net-centric and enterprise customers represented 45.2%, 35.7% and 19.1% of total service revenue, respectively, for the three months ended September 30, 2024 and represented 43.7%, 34.5% and 21.8% of total service revenue, respectively, for the three months ended September 30, 2023.

Our revenue from our corporate customers decreased primarily due to cancellations of low margin and non-core corporate customers acquired with the Sprint Business. Our corporate customers take advantage of our superior speeds, greater aggregate throughput, service levels and installation times versus our competitors. The growing trend of customers installing second lines for redundancy in order to construct virtual private networks (“VPNs”) has also led to our ability to increase our corporate revenues. Beginning with and throughout the COVID-19 pandemic, we witnessed a deteriorating real estate market in and around the buildings we service in central business districts in North America. Because of the rising vacancy levels and falling lease initiations or renewals, we experienced a slowdown in new sales to our corporate customers, which negatively affected our corporate revenue results. During the three months ended September 30, 2024, we continued to see gradual declines in vacancy rates and rising office occupancy rates. In addition, we continued to see positive trends in our corporate business. As the option to fully or partially work from home becomes permanently established at many companies, our corporate customers are integrating some of the new applications that became part of the remote work environment, which benefits our corporate business as these customers upgrade their Internet access infrastructure to higher capacity connections. Further, if and when companies eventually return to the buildings in which we operate, we believe it will present an opportunity for increased sales. However, the exact timing and path of these positive trends remains uncertain.

Our revenue from our net-centric customers decreased primarily due to a reduction in the CSA with TMUSA offsetting growth in network traffic from our legacy net-centric customers and from net-centric customers acquired with the Sprint Business. Our net-centric customers purchase our services on a price per megabit basis. The net-centric market exhibits significant pricing pressure due to the continued introduction of new technology, which lowers the marginal cost of transmission and routing, and the commodity nature of the service where price is typically the only differentiating factor for these customers. Our average price per megabit of our installed base of customers decreased by 23.9% from the three months ended September 30, 2023 to the three months ended September 30, 2024. The impact of foreign exchange rates has a more significant impact on our net-centric revenues.

Our revenue from our enterprise customers decreased primarily due to a reduction from low-margin and non-core enterprise customers acquired with the Sprint Business. Service revenue classified as on-net revenue and enterprise revenue from a low margin resale customer acquired in connection with the Sprint Business was $1.7 million for the three months ended September 30, 2024 and $3.4 million for the three months ended September 30, 2023. The resale customer cancelled its service on July 31, 2024.

*Revenue and customer connections by network connection type.* On the Closing Date, we classified the total $39.5 million of monthly Sprint Business revenue as $2.5 million of on-net revenue, $32.3 million of off-net revenue and $4.7 million of non-core revenue. Additionally, on the Closing Date, we classified the total 46,743 Sprint Business customer connections as 1,560 on-net customer connections, 24,667 off-net customer connections and 20,516 non-core customer connections.

Revenues from our on - net, off - net, wavelength and non - core customers represented 53.0%, 43.3%, 2.1% and 1.6% of total service revenue, respectively, for the three months ended September 30, 2024 and represented 46.9%, 47.4%, 1.1% and 4.7% of total service revenue, respectively, for the three months ended September 30, 2023.

Our on-net revenues increased from the three months ended September 30, 2023 to the three months ended September 30, 2024 primarily from customers acquired with the Sprint Business and an increase in revenues from our legacy Cogent customers. Service revenue classified as on-net revenue and enterprise revenue from a low margin resale customer acquired in connection with the Sprint Business was $1.7 million for the three months ended September 30, 2024 and $3.4 million for the three months ended September 30, 2023. The resale customer cancelled its service on July 31, 2024.

Our off-net revenues decreased from the three months ended September 30, 2023 to the three months ended September 30, 2024 primarily from cancellations of low-margin off-net customers acquired with the Sprint Business.

In connection with our acquisition of the Sprint Business, we expanded our offerings of optical wavelength and optical transport services over our fiber network. Wavelength revenue was $5.3 million for the three months ended September 30, 2024 and $3.0 million for the three months ended September 30, 2023.

Our non-core revenues decreased from the three months ended September 30, 2023 to the three months ended September 30, 2024 from the cancellation of non-core revenues acquired in the Sprint Business. Non-core services are services, which we acquired and continue to support but do not actively sell.

*Network Operations Expenses.* Network operations expenses include the costs of personnel associated with service delivery, network management and customer support, network facilities costs, right - of - way fees, fiber and equipment maintenance fees, leased circuit costs, access and facilities fees paid to building owners and excise taxes billed to our customers and recorded on a gross basis. Non - cash equity - based compensation expense is included in network operations expenses consistent with the classification of the employee’s salary and other compensation. Our decrease in network operations expense is primarily attributable to our efforts to reduce the network operations costs related to our acquisition of the Sprint Business, including leased circuit costs and facilities costs.

*Selling, General, and Administrative (“SG&A”) Expenses.* Our SG&A expenses, including non - cash equity - based compensation expense, increased by 3.6% from the three months ended September 30, 2023 to the three months ended September 30, 2024. Non - cash equity - based compensation expense is included in SG&A expenses consistent with the classification of the employee’s salary and other compensation. SG&A expenses increased primarily from an increase in bad debt expense associated with the Sprint Business.

*Acquisition-Related Costs.* In connection with the Transaction and negotiation of the Purchase Agreement, we incurred cumulative professional fees, other acquisition related costs totaling $42.1 million, including $28.6 million of reimbursed severance costs. Such fees totaled $0.4 million for the three months ended September 30, 2023. There were no acquisition related costs recorded in the three months ended September 30, 2024.

*Depreciation and Amortization Expenses.* Our depreciation and amortization expense decreased by 1.1% primarily due to the depreciation expense associated assets acquired with the Sprint Business and an increase in deployed fixed assets offset by a change in estimated useful life for owned fiber acquired in the Sprint Business. Effective July 1, 2024, we changed our estimate of the useful life of our owned fiber to better reflect the estimated periods during which these assets will remain in service. The estimated useful life of the owned fiber that previously averaged 14 years was increased to an average of 40 years. The effect of this change in estimate on the three months ended September 30, 2024 was to reduce depreciation expense by $4.4 million.

*Gain on Bargain Purchase.* We accounted for the Transaction as a business combination. The identifiable assets acquired and liabilities assumed were recorded at their fair values as of the acquisition date. Assigning fair market values to the assets acquired and liabilities assumed at the date of an acquisition requires the use of significant judgment regarding estimates and assumptions. In the three months ended September 30, 2023 we reduced the gain on bargain purchase by $3.3 million. The total bargain purchase gain from the Transaction was $1.4 billion.

*Interest Income - IP Transit Services Agreement* . Under the IP Transit Services Agreement TMUSA will pay us an aggregate of $700.0 million, consisting of (i) $350.0 million in equal monthly installments during the first year after the Closing Date and (ii) $350.0 million in equal monthly installments over the subsequent 42 months. The IP Transit Services Agreement was recorded in connection with the Transaction at its discounted present value resulting in a discount of $79.6 million. The amortization of the discount resulted in interest income of $5.4 million for the three months ended September 30, 2024 and $10.3 million for the three months ended September 30, 2023.

*Interest Expense.* Our interest expense resulted from interest incurred on our $500.0 million aggregate principal amount of 3.50% Senior Secured Notes due 2026 that we issued in May 2021 (the “2026 Notes”), interest incurred on our $450.0 million aggregate principal amount of 7.00% Senior Unsecured Notes due 2027 that we issued in June 2022 (the “2027 Notes”), interest incurred on $206.0 million aggregate principal amount of 7.924% IPv4 secured notes that we issued in May 2024 (the “IPv4 Notes”), interest incurred on our $300.0 million aggregate principal amount of 7.00% Senior Unsecured Notes due 2027 that we issued in June 2024 (the “2027 Mirror Notes”) and interest on our Swap Agreement and interest incurred on our finance lease obligations.

As of September 30, 2024, the fair value of our Swap Agreement was a net liability of $29.9 million Changes in the valuation of the Swap Agreement are related changes in interest rates and are included in interest expense. Our interest expense decreased primarily due to the change in the valuation of the swap agreement offsetting the increase from the issuance of our IPv4 Notes in May 2024 and the issuance of our 2027 Mirror Notes in June 2024.

*Income Tax Benefit.* Our income tax benefit was $16.9 million for the three months ended September 30, 2024 and $13.6 million for the three months ended September 30, 2023. The change in our income tax benefit is primarily related to projected operating results related to the Sprint Business acquisition and the reversal of deferred tax liabilities acquired with the Sprint Business.

*Buildings On-net.* As of September 30, 2024 and 2023, we had a total of 3,424 and 3,257 on-net buildings connected to our network, respectively. The increase in our on-net buildings was a result of our disciplined network expansion program. We anticipate adding a similar number of buildings to our network for the next several years.

*Nine Months Ended September 30, 2024 Compared to the Nine Months Ended September 30, 2023*

Our management reviews and analyzes several key financial measures in order to manage our business and assess the quality and variability of our service revenue, operating results and cash flows. The following summary tables present a comparison of our results of operations with respect to certain key financial measures. The comparisons illustrated in the tables are discussed in greater detail below.

| | Nine Months Ended September 30, | | Percent |
|---|---|---|---|
| | 2024 | 2023 | Change |
| | (in thousands) | | |
| Service revenue | $ 783,813 | $ 668,822 | 17.2 % |
| Network operations expenses (1) | 486,657 | 369,734 | 31.6 % |
| Selling, general, and administrative (“SG&A) expenses (2) | 212,706 | 194,046 | 9.6 % |
| Sprint acquisition costs | 21,407 | 1,490 | NM |
| Depreciation and amortization expenses | 230,747 | 164,403 | 40.4 % |
| Gain on bargain purchase – Sprint Business | 22,202 | 1,152,386 | NM |
| Gain on lease termination | 3,332 | — | NM |
| Interest income – IP Transit Services Agreement | 18,702 | 17,968 | 4.1 % |
| Interest expense, including change in valuation of swap agreement | 85,575 | 76,138 | 12.4 % |
| Income tax benefit | 43,881 | 33,599 | 30.6 % |

(1) Includes non-cash equity-based compensation expenses of $1,204 and $750 in the nine months ended September 30, 2024 and 2023, respectively.
(2) Includes non-cash equity-based compensation expenses of $17,186 and $19,491 in the nine months ended September 30, 2024 and 2023, respectively.

NM – not meaningful

*Service Revenue*. We continually work to grow our total service revenue by increasing the number of potential customers that we can reach on our network. We do this by investing capital to expand the geographic footprint of our network, increasing the number of buildings that we are connected to, including CNDCs and MTOBs, and increasing our penetration rate into our existing buildings. These efforts broaden the global reach of our network and increase the size of our potential addressable market. We also seek to grow our service revenue by investing in our sales and marketing team. We typically sell corporate connections at similar pricing to our competitors, but our customers benefit from our significantly faster speeds, greater aggregate throughput, enhanced service level agreements and rapid installation times. In the net-centric market, we offer comparable services in terms of capacity but typically at significantly lower prices.

Our service revenue increased by 17.2% from the nine months ended September 30, 2023 to the nine months ended September 30, 2024. Exchange rates had a positive impact on our increase in service revenue by $0.2 million. All foreign currency comparisons herein reflect results for the nine months ended September 30, 2024 translated at the average foreign currency exchange rates for the nine months ended September 30, 2023. We increased our total service revenue by the acquisition of Sprint Business customers, expanding our network, adding additional buildings to our network, increasing our penetration into the buildings connected to our network and gaining market share by offering our services at lower prices than our competitors.

Revenue recognition standards include guidance relating to any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, gross receipts taxes, Universal Service Fund fees and certain state regulatory fees. We record these taxes billed to our customers on a gross basis (as service revenue and network operations expense) in our condensed consolidated statements of comprehensive income. The impact of these taxes including the Universal Service Fund resulted in an increase to our revenues of $29.7 million from the nine months ended September 30, 2023 to the nine months ended September 30, 2024.

| | Nine Months Ended September 30, | | Percent |
|---|---|---|---|
| | 2024 | 2023 | Change |
| **Other Operating Data** | | | |
| *Revenue by Customer Type – (thousands)* | | | |
| Corporate | $ 360,664 | $ 317,108 | 13.7 % |
| Net-centric | 274,958 | 250,479 | 9.8 % |
| Enterprise | 149,191 | 101,235 | 46.4 % |
| | | | |
| *Customer Connections by Customer Type - End of Period* | | | |
| Corporate | 47,613 | 55,045 | (13.5)% |
| Net-centric | 62,273 | 62,291 | (0.0)% |
| Enterprise | 16,447 | 20,689 | (20.5)% |
| | | | |
| *Revenue – by Network Connection Type – (thousands)* | | | |
| On-net | $ 415,865 | $ 372,839 | 11.5 % |
| Off-net | 340,918 | 269,827 | 26.3 % |
| Wavelength | 12,230 | 4,577 | 167.2 % |
| Non-core | 14,800 | 21,580 | (31.4)% |
| | | | |
| *Customer Connections – by Network Connection Type - End of Period* | | | |
| On-net | 87,655 | 89,623 | (0.7)% |
| Off-net | 32,420 | 36,766 | (12.2)% |
| Wavelength | 1,041 | 449 | 131.8 % |
| Non-core | 5,217 | 11,187 | (57.9)% |
| | | | |
| *Average Revenue Per Unit (ARPU)* | | | |
| ARPU - on-net | $ 525 | $ 482 | 8.3 % |
| ARPU - off-net | 1,096 | 1,194 | (7.7)% |
| ARPU - wavelength | 1,597 | 2,266 | (29.5)% |
| Average Price per Megabit — installed base | 0.25 | 0.27 | (10.4)% |

*Revenue and customer connections by customer type* . Our corporate customers generally purchase their services on a price per connection basis. Our net-centric customers generally purchase their services on a price per megabit-metered basis. We began to serve enterprise customers in connection with our acquisition of the Sprint Business. We define “enterprise” customers as large corporations (typically, Fortune 500 companies with greater than $5 billion in annual revenue) running WAN with several dozen to several hundred sites. Our enterprise customers generally purchase our services on a price per location basis.

On the Closing Date, we acquired 17,823 corporate customer connections, 5,711 net-centric customer connections and 23,209 enterprise customer connections with the Sprint Business. We classified the $39.5 million of May 2023 Sprint Business revenue as $20.1 million of monthly recurring revenue as enterprise revenue, $12.9 million of monthly recurring revenue as corporate revenue and $6.5 million of monthly recurring revenue as net-centric revenue.

Revenues from our corporate, net - centric and enterprise customers represented 46.0%, 35.1% and 18.9% of total service revenue, respectively, for the nine months ended September 30, 2024 and represented 47.4%, 37.5% and 15.1% of total service revenue, respectively, for the nine months ended September 30, 2023.

Our revenue from our corporate customers increased primarily due to corporate customers acquired with the Sprint Business. Our corporate customers take advantage of our superior speeds, greater aggregate throughput, service levels and installation times versus our competitors. The growing trend of customers installing second lines for redundancy in order to construct VPNs has also led to our ability to increase our corporate revenues. Beginning with and throughout the COVID-19 pandemic, we witnessed a deteriorating real estate market in and around the buildings we service in central business districts in North America. Because of the rising vacancy levels and falling lease initiations or renewals, we experienced a slowdown in new sales to our corporate customers, which negatively affected our corporate revenue results. During the nine months ended September 30, 2024, we continued to see gradual declines in vacancy rates and rising office occupancy rates. In addition, we continued to see positive trends in our corporate business. As the option to fully or partially work from home becomes permanently established at many companies, our corporate customers are integrating some of the new applications that became part of the remote work environment, which benefits our corporate business as these customers upgrade their Internet access infrastructure to higher capacity connections. Further, if and when companies eventually return to the buildings in which we operate, we believe it will present an opportunity for increased sales. However, the exact timing and path of these positive trends remains uncertain.

Our revenue from our net-centric customers increased primarily due to the net-centric customers acquired with the Sprint Business and growth in network traffic from our customers. Our net-centric customers purchase our services on a price per megabit basis. The net-centric market exhibits significant pricing pressure due to the continued introduction of new technology, which lowers the marginal cost of transmission and routing, and the commodity nature of the service where price is typically the only differentiating factor for these customers. Our average price per megabit of our installed base of customers decreased by 10.4% from the nine months ended September 30, 2023 to the nine months ended September 30, 2024. The impact of foreign exchange rates has a more significant impact on our net-centric revenues.

Our revenue from our enterprise customers increased primarily due to enterprise customers acquired with the Sprint Business. Service revenue classified as on-net revenue and enterprise revenue from a low margin resale customer acquired in connection with the Sprint Business was $11.9 million for the nine months ended September 30, 2024 and $8.5 million for the nine months ended September 30, 2023. The resale customer cancelled its service on July 31, 2024.

*Revenue and customer connections by network connection type.* On the Closing Date, we classified the total $39.5 million of monthly Sprint Business revenue as $2.5 million of on-net revenue, $32.3 million of off-net revenue and $4.7 million of non-core revenue. Additionally, on the Closing Date, we classified the total 46,743 Sprint Business customer connections as 1,560 on-net customer connections, 24,667 off-net customer connections and 20,516 non-core customer connections.

Revenues from our on-net, off-net, wavelength and non-core customers represented 53.0%, 43.5%, 1.6% and 1.9% of total service revenue, respectively, for the nine months ended September 30, 2024 and represented 55.7%, 40.3%, 0.7% and 3.2% of total service revenue, respectively, for the nine months ended September 30, 2023.

Our on-net revenues increased from the nine months ended September 30, 2023 to the nine months ended September 30, 2024 primarily from customers acquired with the Sprint Business. On-net revenue increased at a greater rate than on-net customer connections primarily due to an increase in our on-net ARPU from the nine months ended September 30, 2023 to the nine months ended September 30, 2024. ARPU is determined by dividing on-net revenue for the period by the average on-net customer connections for that period. Service revenue classified as on-net revenue and enterprise revenue from a low margin resale customer acquired in connection with the Sprint Business was $11.9 million for the nine months ended September 30, 2024 and $8.5 million for the nine months ended September 30, 2023. The resale customer cancelled its service on July 31, 2024.

Our off-net revenues increased from the nine months ended September 30, 2023 to the nine months ended September 30, 2024 from customers acquired with the Sprint Business.

In connection with our acquisition of the Sprint Business, we expanded our offerings of optical wavelength and optical transport services over our fiber network. Wavelength revenue was $12.2 million for the nine months ended September 30, 2024 and was $4.6 million for the nine months ended September 30, 2023.

Our non-core revenues decreased from the nine months ended September 30, 2023 to the nine months ended September 30, 2024 primarily from reductions in non-core revenues from customers acquired in the Sprint Business. Non-core services are services, which we acquired and continue to support but do not actively sell.

*Network Operations Expenses.* Network operations expenses include the costs of personnel associated with service delivery, network management and customer support, network facilities costs, right-of-way fees, fiber and equipment maintenance fees, leased circuit costs, access and facilities fees paid to building owners and excise taxes billed to our customers and recorded on a gross basis. Non-cash equity-based compensation expense is included in network operations expenses consistent with the classification of the employee's salary and other compensation. Our increase in network operations expense is primarily attributable to an increase in costs related to our network and facilities expansion activities, an increase in network operations expense from our acquisition of the Sprint Business.

*Selling, General, and Administrative ("SG&A") Expenses.* Our SG&A expenses, including non-cash equity-based compensation expense, increased by 9.6% from the nine months ended September 30, 2023 to the nine months ended September 30, 2024. Non-cash equity-based compensation expense is included in SG&A expenses consistent with the classification of the employee's salary and other compensation. SG&A expenses increased primarily from an increase in salaries and benefits from 942 employees added to our headcount from our acquisition of the Sprint Business on the Closing Date and costs associated with the Sprint acquisition including TSA costs. Our total headcount was 1,908 at September 30, 2024 and 1,990 at September 30, 2023.

*Acquisition-Related Costs.* In connection with the Transaction and negotiation of the Purchase Agreement, we incurred professional fees, other acquisition related costs totaling $42.1 million, including $28.6 million of reimbursed severance costs. Such fees totaled $1.5 million for the nine months ended September 30, 2023 and $21.4 million for the nine months ended September 30, 2024.

*Depreciation and Amortization Expenses.* Our depreciation and amortization expense increased by 40.4% primarily due to the depreciation expense associated assets acquired with the Sprint Business and an increase in deployed fixed assets, partly offset by the impact of an increase in the estimated useful life for our owned fiber acquired with the Sprint Business. Effective July 1, 2024, we changed our estimate of the useful life of our owned fiber to better reflect the estimated periods during which these assets will remain in service. The estimated useful life of the owned fiber that previously averaged 14 years was increased to an average of 40 years. The effect of this change in estimate on the nine months ended September 30, 2024 was to reduce depreciation expense by $4.4 million.

*Gain on Lease Termination.* In June 2024, we elected to exercise a contractual option to prepay in full at a 12.0% discounted rate an IRU finance lease agreement between a us and a vendor we assumed with the Sprint Business for $114.6 million. At the payment date, the present value of the IRU finance lease liability was $117.9 million and the remaining thirty-one $4.2 million monthly principal payments totaled $130.2 million. The prepayment resulted in a gain on lease termination of $3.3 million related to the difference between the book value of $117.9 million and the cash payment of $114.6 million. We are continuing to use the related IRU asset.

*Gain on Bargain Purchase.* We accounted for our acquisition of the Sprint Business as a business combination. The identifiable assets acquired and liabilities assumed were recorded at their fair values as of the acquisition date. Assigning fair market values to the assets acquired and liabilities assumed at the date of an acquisition requires the use of significant judgment regarding estimates and assumptions. As of September 30, 2023, the fair value of the identifiable assets acquired was $1.5 billion (including amounts due under the IP Transit Services Agreement) and was in excess of the $1.0 billion liabilities assumed and the $0.6 billion net consideration to be received from the Seller resulting in a gain on bargain purchase of $1.2 billion. During the nine months ended September 30, 2024, we made certain adjustments to our estimates of the fair market value of the assets acquired and liabilities assumed resulting in increase to the gain on bargain purchase of $22.2 million for the nine months ended September 30, 2024. The total bargain purchase gain was from the Transaction was $1.4 billion.

*Interest Income - IP Transit Services Agreement.* Under the IP Transit Services Agreement, TMUSA will pay us an aggregate of $700.0 million, consisting of (i) $350.0 million in equal monthly installments during the first year after the Closing Date and (ii) $350.0 million in equal monthly installments over the subsequent 42 months. The IP Transit Services Agreement was recorded in connection with the Transaction at its discounted present value resulting in a discount of $79.6 million. The amortization of the discount resulted in interest income of $18.7 million for the nine months ended September 30, 2024 and $18.0 million for the nine months ended September 30, 2023.

*Interest Expense.* Our interest expense resulted from interest incurred on our 2026 Notes, interest incurred on our 2027 Notes, interest incurred on our 2027 Mirror Notes, interest incurred on our IPv4 Notes, interest on our Swap Agreement and interest incurred on our finance lease obligations.

As of September 30, 2024, the fair value of our Swap Agreement was a net liability of $29.9 million. Changes in the valuation of the Swap Agreement are related to semi-annual interest payments in May and November and changes in interest rates, and included in interest expense. Under the Swap Agreement settlement payment made in May 2023, we paid $9.5 million to the counterparty for a net cash interest cost of $9.5 million for the period from November 1, 2022 to April 30, 2023. Under the Swap Agreement settlement payment made in May 2024, we paid $12.1 million to the counterparty for a net cash interest cost of $12.1 million for the period from November 1, 2023 to April 30, 2024. Our interest expense increased primarily due to the issuance of our IPv4 Notes in May 2024 and the issuance of our 2027 Mirror Notes in June 2024.

*Income Tax Benefit.* Our income tax benefit was $43.9 million for the nine months ended September 30, 2024 and $33.6 million for the nine months ended September 30, 2023. The change in our income tax benefit is primarily related to projected operating results related to the Sprint Business acquisition and the reversal of deferred tax liabilities acquired with the Sprint Business.

*Buildings On-net.* As of September 30, 2024, and 2023, we had a total of 3,424 and 3,257 on-net buildings connected to our network, respectively. The increase in our on-net buildings was a result of our disciplined network expansion program. We anticipate adding a similar number of buildings to our network for the next several years.

***Acquisition of Sprint Communications***

The Sprint Business's cash flow was negative at the time of negotiations and during its recent history. Due to the dire financial condition of the Sprint Business, it was understood that a payment from T-Mobile to any potential buyer would be required to execute a transaction to give a buyer sufficient cash inflow to offset losses that would be expected until a buyer could optimize the business. Based on management's internal modeling at the culmination of the due diligence process, management determined this cash payment to be $700.0 million. Management intends to reduce the negative cash flow of the Sprint Business through the payments from the IP Transit Services Agreement, reducing operating costs and increasing revenue primarily by providing optical wavelength and optical transport services over our fiber network, including the owned network we acquired with the Sprint Business. We are selling these services to our existing customers, customers we acquired with the Sprint Business and to new customers who require dedicated optical transport connectivity without the capital and ongoing expenses associated with owning and operating network infrastructure. As part of the Transaction, we began incurring costs associated with the TSA. The amount of these costs will be dependent upon our ability to integrate the operations of the Sprint Business into our operations. Our cash flow requirements related to the acquisition of the Sprint Business will be dependent upon our ability to reduce the acquired operating costs, our success in retaining the acquired customers and our ability to sell optical wavelength and optical transport services over our fiber network.

Under the IP Transit Services Agreement, TMUSA will pay us an aggregate of $700.0 million, consisting of (i) $350.0 million in equal monthly installments of $29.2 million per month during the first year after the Closing Date and (ii) $350.0 million in equal monthly installments of $8.3 million per month over the subsequent 42 months. Through September 30, 2024, we received monthly payments totaling $383.3 million under the IP Transit Services Agreement, reflected as cash flows from investing activities in our consolidated statements of cash flows. As our business has grown as a result of an increasing customer base, the Transaction, broader geographic coverage and increased traffic on our network, we have historically produced a growing level of cash provided by operating activities. Since we closed the Transaction we have experienced a reduction of cash provided by operating activities from the impact of the Transaction. The cash received from the IP Transit Services Agreement was designed to offset operating losses associated with the Sprint Business. Increasing our cash provided by operating activities is, in part, dependent upon our ability to reduce the operating costs of the Sprint Business while retaining its revenue, expanding our geographic footprint and increasing our network capacity.

During the first nine months of 2024, we have received a total of $179.2 million under the IP Transit Services Agreement. During the remainder of 2024 we expect to receive a total of $25.0 million under the monthly payments under the IP Transit Services Agreement. This includes three monthly payments of $8.3 million each. Increasing our cash provided by operating activities is, in part, dependent upon our ability to reduce the operating costs of the Sprint Business while retaining its revenue.

***Issuance of $300.0 Million Principal Amount of 2027 Mirror Notes***

On June 11, 2024, Cogent Communications Group, LLC ("Group") and Cogent Finance, Inc. (the "Co – Issuer" and, together with Group, the "Issuers"), two wholly owned subsidiaries of Cogent Communications Holdings, Inc. ("Holdings"), completed the offering of our 2027 Mirror Notes for issuance in a private placement not registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"). The 2027 Mirror Notes were offered and sold only to persons reasonably believed to be qualified institutional buyers in an unregistered offering pursuant to Rule 144A under the Securities Act and to certain non - U.S. persons in transactions outside the United States in compliance with Regulation S under the Securities Act. The 2027 Mirror Notes have the same maturity date and call protection, bear interest at the same rate and otherwise have substantially the same terms as our 2027 Notes; however, the 2027 Mirror Notes are not fungible (from a trading or tax perspective) with the 2027 Notes and are a separate series of notes from the 2027 Notes.

The 2027 Mirror Notes were issued at a price equal to 98.50% of their face value. The net proceeds from the offering were approximately $291.9 million after deducting the discount and offering expenses. We used $114.6 million of the net proceeds from the offering to exercise a contractual option to prepay in full in June 2024 an existing indefeasible right-of-use agreement consisting of 31 remaining monthly recurring payments of $4.2 million, at a 12.0% discounted rate. We expect to use the remainder of the net proceeds for general corporate purposes and/or to make special or recurring dividends to Holdings.

The 2027 Mirror Notes were issued pursuant to, and are governed by, an indenture, dated June 11, 2024 (the "2027 Mirror Notes Indenture"), among the Issuers, Holdings, the other guarantors named therein and Wilmington Trust, National Association, as trustee (the "2027 Notes Trustee"). The 2027 Mirror Notes are jointly and severally guaranteed (the "Guarantees") on a senior unsecured basis by each of Group's existing and future material domestic subsidiaries (other than the Co-Issuer), subject to certain exceptions (collectively, the "Subsidiary Guarantors"), and by Holdings (together with the Subsidiary Guarantors, the "Guarantors"). However, the Holdings is not subject to the covenants under the 2027 Mirror Notes Indenture. Under certain circumstances, the Guarantors may be released from these Guarantees without the consent of the holders of the 2027 Mirror Notes.

The 2027 Mirror Notes and the Guarantees are the Issuers' and the Guarantors' senior unsecured obligations. The 2027 Mirror Notes and the Guarantees are effectively subordinated to all of the Issuers' and the Guarantors' existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness, and are structurally subordinated to all indebtedness and other liabilities of subsidiaries that are not Subsidiary Guarantors. Without giving effect to collateral arrangements, the 2027 Mirror Notes and the Guarantees rank pari passu in right of payment with all of the Issuers' and the Guarantors' existing and future senior indebtedness, including the 2026 Notes and the 2027 Notes. The 2027 Mirror Notes and the Guarantees rank contractually senior in right of payment to all of the Issuers' and the Guarantors' subordinated indebtedness and are structurally subordinated to any existing and future indebtedness and other liabilities of the Issuers' non-guarantor subsidiaries.

The 2027 Mirror Notes bear interest at a rate of 7.00% per annum. Interest began to accrue on the 2027 Mirror Notes on June 11, 2024 and will be paid semi-annually in arrears on June 15 and December 15 of each year, commencing December 15, 2024. Unless earlier redeemed or repurchased, the 2027 Mirror Notes will mature on June 15, 2027.

After June 15, 2024, the Issuers may redeem the 2027 Mirror Notes, in whole or in part, at a redemption price ranging from 103.5% of the aggregate principal amount of the 2027 Mirror Notes redeemed to par (depending on the year), in each case, as set forth in the 2027 Mirror Notes Indenture, plus accrued and unpaid interest, if any, to, but not including, the date of redemption.

If Group undergoes specific kinds of change in control accompanied by certain ratings events, the Issuers will be required to offer to repurchase the 2027 Mirror Notes from holders at a price equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the date of repurchase. Additionally, if Group or any of its restricted subsidiaries sells assets and does not apply the proceeds from such sale in a certain manner or certain other events have not occurred, under certain circumstances, we will be required to use the net proceeds to make an offer to purchase the 2027 Mirror Notes at an offer price in cash equal to 100% of the principal amount of the 2027 Mirror Notes, plus accrued and unpaid interest, if any, to, but not including, the repurchase date. In connection with any offer to purchase all or any of the 2027 Mirror Notes (including a change of control offer, asset sale offer or any tender offer), if holders of no less than 90% of the aggregate principal amount of the outstanding 2027 Mirror Notes validly tender their 2027 Mirror Notes, the Issuers, or a third party, are entitled to redeem any remaining 2027 Mirror Notes at the price paid to each holder.

The 2027 Mirror Notes Indenture includes covenants that restrict Group and its restricted subsidiaries' (including the Co-Issuer's) ability to, among other things: incur indebtedness; issue certain preferred stock or similar equity securities; pay dividends or make other distributions in respect of, or repurchase or redeem, capital stock; make certain investments and other restricted payments, such as prepayment, redemption or repurchase of certain indebtedness; create liens; consolidate, merge, sell or otherwise dispose of all or substantially all of the properties and assets of Group and its restricted subsidiaries taken as a whole; incur restrictions on the ability of a subsidiary to pay dividends or make other payments; or enter into transactions with affiliates. The covenants provide for certain exceptions to these restrictions, and Holdings is not subject to the covenants under the 2027 Mirror Notes Indenture. Certain covenants will cease to apply to the 2027 Mirror Notes if, and for so long as, the 2027 Mirror Notes have investment grade ratings from any two of Moody's Investors Service, Inc., Fitch Ratings, Inc. and S&P Global Ratings, and so long as no default or event of default under the 2027 Mirror Notes Indenture has occurred and is continuing. Upon suspension of the covenants, the Guarantees will be released until such time as the covenants are no longer suspended.

The principal amount of the 2027 Mirror Notes would become immediately due and payable upon the occurrence of certain bankruptcy or insolvency events and may be declared immediately due and payable by the 2027 Notes Trustee or the holders of at least 25% of the aggregate principal amount of the then-outstanding 2027 Mirror Notes upon the occurrence of certain events of default under the 2027 Mirror Notes Indenture. Events of default include the following with respect to the Issuers' and Group's significant subsidiaries: (i) failure to pay principal, premium or interest at required times; (ii) failure to comply with any other agreements in the 2027 Mirror Notes Indenture; (iii) default on certain material indebtedness that is caused by a failure to make a payment within any applicable grace period when due at maturity or results in the acceleration of such indebtedness prior to its express maturity; (iv) failure to pay certain material judgments; (v) a Guarantee being held unenforceable or invalid or ceasing for any reason to be in full force and effect or a Guarantor denying or disaffirming its obligations under its Guarantee; and (vi) certain events of bankruptcy or insolvency.

***Issuance of $206.0 Million Principal Amount of IPv4 Notes***

On May 2, 2024, Cogent IPv4 LLC (the "IPv4 Issuer"), our special-purpose, bankruptcy remote, indirect wholly owned subsidiary, issued $206.0 million aggregate principal amount of IPv4 Notes, with an anticipated term ending in May 2029 (such anticipated repayment date, the "ARD"), in an offering exempt from registration under the Securities Act. The net proceeds from the offering, after debt offering costs, were $198.4 million and are expected to be used for general corporate purposes.

The IPv4 Notes were issued pursuant to an indenture, dated as of May 2, 2024 (the "IPv4 Base Indenture"), as supplemented by the Series 2024-1 Supplement thereto, dated as of May 2, 2024 (the "Series 2024-1 Supplement"), in each case entered into by and between the IPv4 Issuer and Wilmington Trust, National Association, as the trustee for the IPv4 Notes (the "IPv4 Trustee"). The IPv4 Base Indenture allows the IPv4 Issuer to issue additional series of notes subject to certain conditions set forth therein, and the IPv4 Base Indenture, together with the Series 2024-1 Supplement, and any other series supplements to the IPv4 Base Indenture, is referred to herein as the "IPv4 Indenture."

The IPv4 Notes were issued as part of a securitization transaction, pursuant to which certain Internet Protocol version 4 ("IPv4") addresses, customer IPv4 address leases, customer accounts receivables and other IPv4 address assets (collectively, "IPv4 Address Assets") were contributed or sold to the IPv4 Issuer and are included as collateral for the IPv4 Notes.

While the IPv4 Notes are outstanding, scheduled payments of interest are required to be made on a monthly basis. From and after the ARD, principal payments will also be required to be made on the IPv4 Notes on a monthly basis. No principal payments will be due on the IPv4 Notes prior to the ARD, unless certain rapid amortization or acceleration triggers are activated.

Cogent Communications LLC (in such capacity, the “Manager”) performs certain monthly services related to the IPv4 Address Assets and IPv4 Notes including billing customers, collecting amounts paid by customers, forwarding payments to the IPv4 Trustee related to the IPv4 Assets and other administrative services. Amounts paid by the Manager to the IPv4 Trustee are reconciled on a monthly basis and the IPv4 Trustee pays the monthly interest on the IPv4 Notes and other expenses from the accumulated customer payments on the IPv4 Assets. Amounts held by the IPv4 Trustee before the monthly reconciliation is completed are considered restricted cash. After the IPv4 Trustee pays the monthly interest and other IPv4 Asset related costs, including monthly fees paid to the Manager for its services, the residual cash is paid to us and is unrestricted.

The legal final maturity date of the IPv4 Notes is in May of 2054. If the IPv4 Issuer has not repaid or refinanced the IPV4 Notes prior to the monthly payment date in May of 2029, additional interest will accrue thereon in an amount equal to the greater of (i) 5.0% per annum and (ii) the excess amount, if any, by which the sum of the following exceeds the interest rate for such IPv4 Note: (A) the yield to maturity (adjusted to a “mortgage-equivalent basis” pursuant to the standards and practices of the Securities Industry and Financial Markets Association) on the ARD for such IPv4 Note of the United States Treasury Security having a remaining term closest to 10 years; plus (B) 5.0%; plus (C) the post-ARD note spread of 3.400% applicable to such Note.

The IPv4 Notes are obligations only of the IPv4 Issuer pursuant to the IPv4 Indenture, and are secured by a security interest in substantially all of the IPv4 Address Assets pursuant to the IPv4 Indenture. The IPv4 Notes are guaranteed by Cogent IPv4 Holdco LLC, a special-purpose entity and our indirect wholly owned subsidiary, as the guarantor (the “IPv4 Guarantor”), pursuant to a guaranty dated as of May 2, 2024 (the “Guaranty”) by the IPv4 Guarantor in favor of the IPv4 Trustee, pursuant to which the IPv4 Guarantor has granted a security interest in the equity interests of the IPv4 Issuer as collateral security for its obligations under the Guaranty. Except as described below, neither we nor any of our subsidiaries, other than the IPv4 Issuer and the IPv4 Guarantor, will guarantee or in any way be liable for the obligations of the IPv4 Issuer under the IPv4 Indenture or the IPv4 Notes.

The IPv4 Notes are subject to a series of covenants and restrictions customary for transactions of this type. These covenants and restrictions include (i) that the IPv4 Issuer maintains a liquidity reserve account to be used to make required payments in respect of the IPv4 Notes such amount considered restricted cash, (ii) provisions relating to optional and mandatory prepayments, including specified make - whole payments in the case of certain optional prepayments of the IPv4 Notes prior to the monthly payment date in May of 2028, (iii) certain indemnification payments in the event, among other things, that the transfers of the assets pledged as collateral for the IPv4 Notes are in stated ways defective or ineffective and (iv) covenants relating to recordkeeping, access to information and similar matters. As provided in the IPv4 Base Indenture, the IPv4 Notes are also subject to rapid amortization in the event of a failure to maintain a stated debt service coverage ratio as defined in the IPv4 Indenture. A rapid amortization may be cured if the debt service coverage ratio exceeds a certain threshold for a certain period of time, upon which cure, regular amortization, if any, will resume. In addition, if certain utilization thresholds are not met (i.e., the proportion of IP addresses that are leased to the total number of IP addresses owned by the IPv4 Issuer falls below certain thresholds), the IPv4 Issuer will be required to apply collections to the repayment of the IPv4 Notes and in certain circumstances, the noteholders will have the ability to direct a sale of the IP Address Assets, in whole or in part, pursuant to the terms set forth in the IPv4 Indenture. The IPv4 Notes are also subject to certain customary events of default, including events relating to non - payment of required interest, principal or other amounts due on or with respect to the IPv4 Notes, failure to comply with covenants within certain time frames, certain bankruptcy events, breaches of specified representations and warranties, failure of security interests to be effective and certain judgments.

**Liquidity and Capital Resources**

In assessing our liquidity, management reviews and analyzes our current cash balances, payments under the IP Transit Services Agreement, accounts receivable, accounts payable, accrued liabilities, capital expenditure commitments, and required finance lease and debt payments and other obligations.

We have also had increasing success in raising capital by issuing notes and arranging financing and leases that have had a lower cost and more flexible terms. The combination of this improved operating performance and access to capital has enhanced our financial flexibility and increased our ability to make distributions to stockholders in the form of cash dividends or through share repurchases. Since our initial public offering, we have returned $1.5 billion to our stockholders through share repurchases and dividends. We will continue to assess our capital and liquidity needs and, where appropriate, return capital to stockholders.

Over the next several years, we have significant contractual and anticipated cash outlays including our indicative dividend payments on our common stock, our maturing debt obligations, interest payments on our debt obligations and Swap Agreement and our projected capital expenditure requirements in order to help execute our business plan including the integration of Sprint Business. Based upon the historical growth rate of our dividend, we expect that we would have to provide approximately $386 million in order to meet our expected quarterly dividend payments over the next two years. Our $500.0 million of 2026 Notes accrue interest at 3.50%, mature in May 2026 and include annual interest payments of $17.5 million until maturity. Our $450.0 million of 2027 Notes mature in June 2027 and include annual interest payments of $31.5 million until maturity. Our $300.0 million of 2027 Mirror Notes mature in June 2027 and include annual interest payments of $21.0 million until maturity. Our $206.0 million of IPv4 Notes effectively mature in May 2029 and include annual interest payments of $16.3 million until maturity (which amount increases if the IPv4 Notes are not repaid prior to May 2029).

Under our Swap Agreement, we pay the counterparty a semi - annual payment based upon overnight SOFR plus a contractual interest rate spread, and the counterparty pays us a semi - annual fixed 3.50% interest payment. These settlement payments are made in November and May of each year until the Swap Agreement expires in February 2026. As of September 30, 2024, $29.9 million of our cash and cash equivalents are restricted for use under our Swap Agreement. We have made a $31.8 million deposit with the counterparty to the Swap Agreement. If the fair value of the Swap Agreement exceeds a net liability of $31.8 million, we will be required to deposit additional funds with the counterparty equal to the net liability fair value. As of September 30, 2024, $29.9 million of the deposit was restricted and $1.9 million was unrestricted.

In June 2024, we elected to exercise a contractual option to prepay in full at a 12.0% discounted rate an IRU finance lease agreement between us and a vendor we assumed with the Sprint Business for $114.6 million. At the payment date, the present value of the IRU finance lease liability was $117.9 million and the remaining thirty-one $4.2 million monthly principal payments totaled $130.2 million. The prepayment resulted in a gain on lease termination of $3.3 million related to the difference between the book value of $117.9 million and the cash payment of $114.6 million. We are continuing to use the related IRU asset.

We may need to, or elect to, refinance all or a portion of our indebtedness at or before maturity and we cannot provide assurances that we will be able to refinance any such indebtedness on commercially reasonable terms or at all. In addition, we may elect to secure additional capital in the future, at acceptable terms, to improve our liquidity or fund acquisitions or for general corporate purposes. In addition, in an effort to reduce future cash interest payments as well as future amounts due at maturity or to extend debt maturities, we may, from time to time, issue new debt, enter into interest rate swap agreements, enter into debt for debt, or cash transactions to purchase our outstanding debt securities in the open market or through privately negotiated transactions. We will evaluate any such transactions in light of the existing market conditions. The amounts involved in any such transaction, individually or in the aggregate, may be material. We or our affiliates may, at any time and from time to time, seek to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity or debt, in open-market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will be upon such terms and at such prices as we may determine, and will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

In light of the economic uncertainties associated with the global recessionary economy, the cash flow requirements of the Sprint Business, the lingering impact of the COVID-19 pandemic and recent bank failures and liquidity concerns at certain other banks, our executive officers and Board of Directors have continued to carefully monitor our liquidity and cash requirements. Based on current circumstances, we currently plan to continue our current dividend policy. Given uncertainties regarding the lingering business impact of the pandemic, the cash flow requirements of the Sprint Business and the timing for economic recovery, we will continue to monitor our capital spending. As we do each year, we will continue to monitor our future sources and uses of cash, and anticipate that we will adjust our capital allocation strategies when, as and if determined by our Board of Directors.

As of September 30, 2024, we had cash, cash equivalents and restricted cash of $316.1 million. The COVID-19 pandemic has not impacted our credit rating to date, nor do we believe that it has materially changed our cost of capital. We believe we are able to timely service our debt obligations and will not require any concessions to do so. We believe we will have access to additional capital from a variety of sources and the public capital markets for debt and equity.

**Continued Impact of Changing Office Occupancy Rates**

Since the onset of the COVID-19 pandemic in 2020, we have experienced certain corporate customers taking a more cautious approach to new configurations and upgrades as well as a reduction in demand for connecting smaller satellite offices as a result of the challenges and uncertainties of the remote work environment that resulted initially from the pandemic. We also witnessed a deteriorating real estate market in and around the buildings we service with rising vacancy levels and falling lease initiations or renewals which resulted in fewer sales opportunities for our salesforce and a reduction in VPN opportunities. As a result, we experienced a slowdown in new sales to our corporate customers which negatively impacted our corporate revenue growth.

During the three months ended September 30, 2024, we continued to see declining vacancy rates and rising office occupancy rates in certain markets in which we operate continuing a trend that began following the end of the pandemic. Other markets, particularly those in California and the Pacific Northwest, continue to see markedly higher vacancy rates. These higher vacancy rates may represent a long-term change in office attendance and occupancy rates. Despite this overall environment, we are seeing some positive trends in our corporate business. This was due partially to the increase in office occupancy rates and leasing activity in some markets but also to new demands for services from corporate customers. As the option to fully or partially work from home becomes permanently established at many companies, our corporate customers are integrating some of the new applications that became part of the remote work environment, which benefits our corporate business as these customers upgrade their Internet access infrastructure to higher capacity connections, and mitigates the overall impact of remote work policies on our corporate business. Further, if and when companies eventually return to the buildings in which we operate, whether as existing or new tenants, we believe it will present an opportunity for increased sales.

While we believe that demand for office space in the buildings in which we operate will remain among the strongest in the markets in which they are located, and that most employers will eventually require their employees to return to their offices on at least a hybrid basis, the timing and scope of a return to office, particularly in a number of key markets we serve, remains uncertain. In some markets, office occupancy rates may never return to pre-2020 levels. As a result, we may continue to experience increased customer turnover, fewer upgrades of existing customer configurations and fewer new tenant opportunities. These trends may negatively impact our revenue growth, cash flows and profitability.

**Cash Flows**

The following table sets forth our consolidated cash flows.

| | Nine Months Ended September 30, | |
|---|---|---|
| **(in thousands)** | **2024** | **2023** |
| Net cash (used in) provided by operating activities | $ (23,177) | $ 66,043 |
| Net cash provided by investing activities | 42,596 | 16,607 |
| Net cash provided by (used in) financing activities | 181,068 | (193,116) |
| Effect of exchange rates changes on cash | 1,824 | 626 |
| Net increase (decrease) in cash and cash equivalents and restricted cash | $ 202,311 | $ (109,840) |

*Net Cash (Used in) Provided by Operating Activities.* Our primary source of operating cash is 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, payments under the TSA, payments to employees and interest payments made to our finance lease vendors and our note holders. Our changes in cash provided by operating activities are primarily due to changes in our operating profit and changes in our interest payments. On the Closing Date, we entered into a TSA with the Seller, pursuant to which the Seller will provide to us, and we will provide to the Seller on an interim basis following the Closing Date, Transition Services to ensure an orderly transition following the separation of the Sprint Business from Sprint Communications. Amounts billed under the TSA are due 30 days from receipt of the related invoice.

During the nine months ended September 30, 2024, and 2023 we were billed $26.3 million and $218.0 million, respectively, under the TSA, primarily for reimbursement at cost of payments to vendors of the Sprint Business. During the nine months ended

September 30, 2024 we paid $91.9 million to the Seller under the TSA. During the nine months ended September 30, 2023 we paid $153.1 million to the seller under the TSA. As of September 30, 2024, we owed $1.6 million to the Seller under the TSA. Amounts due and paid to the Seller under the TSA resulted in $65.3 million of net cash used in operating activities for the nine months ended September 30, 2024. As of September 30, 2023, we owed $69.6 million to the Seller and the Seller owed us $16.8 million under the TSA. Amounts due to the Seller under the TSA contributed $69.6 million to net cash provided by operating activities for the nine months ended September 30, 2023.

*Net Cash Provided by Investing Activities.* Our primary use of cash for investing activities is for purchases of property and equipment. Purchases of property and equipment were $148.9 million and $86.0 million for the nine months ended September 30, 2024 and 2023, respectively. The changes in purchases of property and equipment were primarily due to the timing and scope of our network expansion activities including geographic expansion, purchases related to our acquisition of the Sprint Business, costs associated with providing wave services, conversion costs related to acquired data centers and adding buildings to our network.

On the Closing Date, we entered into the IP Transit Services Agreement pursuant to which TMUSA will pay us an aggregate of $700.0 million, consisting of (i) $350.0 million in equal monthly installments during the first year after the Closing Date and (ii) $350.0 million in equal monthly installments over the subsequent 42 months. During the nine months ended September 30, 2024 we were paid $179.2 million under the IP Transit Services Agreement. During the nine months ended September 30, 2023, we were paid $116.7 million under the IP Transit Services Agreement. In the nine months ended September 30, 2023, we paid $61.1 million, net of $47.1 million of cash acquired, for a net total of $14.0 million paid for our acquisition of the Sprint Business.

*Net Cash Provided By (Used In) Financing Activities.* Our primary uses of cash for financing activities are for dividend payments, purchases of our common stock and principal payments under our finance lease obligations. Our primary sources of cash for financing activities are issuances of note obligations. During the nine months ended September 30, 2024 and 2023 we paid $141.0 million and $135.4 million for our quarterly dividend payments, respectively. Our quarterly dividend payments have increased due to increases in our quarterly dividend per share amounts. Principal payments under our finance lease obligations were $161.2 million and $58.5 million for the nine months ended September 30, 2024 and 2023, respectively. In June 2024, we elected to exercise a contractual option to prepay in full at a 12.0% discounted rate an IRU finance lease agreement between a us and a vendor we assumed with the Sprint Business for $114.6 million. At the payment date, the present value of the IRU finance lease liability was $117.9 million and the remaining thirty-one $4.2 million monthly principal payments totaled $130.2 million. The prepayment resulted in a gain on lease termination of $3.3 million related to the difference between the book value and the cash payment. The other changes in our principal payments under our finance lease obligations were primarily due to the timing and extent of our network expansion activities including geographic expansion, purchases related to our acquisition of the Sprint Business purchases associated with providing wave services and adding buildings to our network. During the nine months ended September 30, 2024 we purchased 153,322 shares of our common stock for $8.0 million. There were no purchases of our common stock in the nine months ended September 30, 2023.

We completed a series of debt issuances in the nine months ended September 30, 2024.

On May 2, 2024, we issued $206.0 million aggregate principal amount of our IPv4 Notes, with an anticipated term ending in May 2029. The net proceeds from the offering, after debt offering costs, were $198.4 million and are expected to be used for general corporate purposes. Interest on the IPv4 Notes is paid on a monthly basis. From and after May 2029, principal payments will also be required to be made on the IPv4 Notes on a monthly basis. No principal payments will be due on the IPv4 Notes prior to May 2029, unless certain rapid amortization or acceleration triggers are activated.

On June 11, 2024, we completed our offering of $300.0 million aggregate principal amount of our 2027 Mirror Notes. The 2027 Mirror Notes were issued at a price equal to 98.50% of their face value. The net proceeds from the offering were approximately $291.9 million after deducting the discount and offering expenses. The 2027 Mirror Notes bear interest at a rate of 7.00% per annum. Interest began to accrue on the 2027 Mirror Notes on June 11, 2024 and will be paid semi-annually in arrears on June 15 and December 15 of each year, commencing on December 15, 2024. Unless earlier redeemed or repurchased, the 2027 Mirror Notes will mature on June 15, 2027.

**Cash Position and Indebtedness**

At September 30, 2024, our total indebtedness, at par, was $1.9 billion and our total cash, cash equivalents and restricted cash ($36.9 million) was $316.1 million. Our total indebtedness at September 30, 2024 includes $482.6 million of finance lease obligations for dark fiber under long-term IRU agreements.

*Summarized Financial Information of Holdings*

Neither Holdings nor any of its subsidiaries that is not also a subsidiary of Group is a "Restricted Subsidiary" as defined under the indentures governing our 2026 Notes, our 2027 Notes or our 2027 Mirror Notes (the "Indentures"). Holdings is a guarantor under these notes, but none of its subsidiaries that is not also a subsidiary of Group is a guarantor under these notes. Under the Indentures, we are required to disclose certain reasonably related information of Holdings and its subsidiaries that is not attributable to Group and its subsidiaries, relating to Holdings' assets, liabilities and operating results ("Holdings Financial Information"). The Holdings Financial Information as of and for the three and nine months ended September 30, 2024 is detailed below (in thousands):

| | As of September 30, 2024 |
|---|---|
| Cash and cash equivalents | $ 42,314 |
| Restricted cash | 6,956 |
| Accounts receivable, net | 6,250 |
| Other current assets | 27,382 |
| Total current assets | 82,902 |
| Property and equipment, net | 390,948 |
| Right-of-use leased assets | 7,719 |
| Intangible assets, net | 460 |
| Due from T-Mobile - Purchase Agreement | 21,943 |
| Total assets | $ 503,972 |
| | |
| Accounts payable | $ 3,025 |
| Accrued and other liabilities | 25,622 |
| Due to T-Mobile – TSA | 1,570 |
| Operating lease liabilities, current maturities | 42,288 |
| Total current liabilities | 72,505 |
| Operating lease liabilities | 182,099 |
| Unfavorable lease liabilities | 96,722 |
| Due to Cogent Communications LLC | 483,763 |
| Senior secured IPv4 Notes | 198,984 |
| Deferred income tax liabilities | 420,369 |
| Other long-term liabilities | 28,389 |
| Total liabilities | 1,482,831 |
| Total stockholders' deficit | (978,859) |
| Total liabilities and stockholders' deficit | $ 503,972 |

| | Three Months Ended September 30, 2024 |
|---|---|
| Service revenue | $ 10,272 |
| Operating expenses: | |
| Network operations | 8,106 |
| Selling, general, and administrative | (14,294) |
| Equity-based compensation expense | 8,757 |
| Depreciation and amortization | 50,823 |
| Total operating expenses | 53,392 |
| Operating loss | (43,120) |
| Interest expense | (4,434) |
| Interest income - Purchase Agreement | 409 |
| Interest income and other, net | (2,112) |
| Net loss | $ (49,257) |

| | Nine Months Ended September 30, 2024 |
|---|---|
| Service revenue | $ 17,646 |
| Operating expenses: | |
| Network operations | 68,274 |
| Selling, general, and administrative | 37,972 |
| Equity-based compensation expense | 20,671 |
| Depreciation and amortization | 132,071 |
| Total operating expenses | 258,988 |
| Operating loss | (241,342) |
| Interest expense | (11,368) |
| Gain on lease termination | 3,332 |
| Gain on bargain purchase – Sprint Business | 22,202 |
| Interest income – Purchase Agreement | 331 |
| Interest income and other, net | (1,180) |
| Net loss | $ (228,025) |

**Common Stock Buyback Program**

Our Board of Directors has approved purchases of shares of our common stock under a buyback program (the "Buyback Program"). During the nine months ended September 30, 2024, we purchased 153,322 shares of our common stock for $8.0 million. There were no purchases of our common stock in the three and nine months ended September 30, 2023. As of September 30, 2024, there was a total of $22.4 million available under the Buyback Program that is authorized to continue through December 31, 2025.

**Dividends on Common Stock and Return of Capital Program**

On November 6, 2024, our Board of Directors approved the payment of our quarterly dividend of $0.995 per common share. This estimated $47.2 million dividend payment is expected to be made on December 6, 2024.

The payment of any future dividends and any other returns of capital, including stock buybacks, will be at the discretion of our Board of Directors and may be reduced, eliminated or increased and will be dependent upon our financial position, results of operations, available cash, cash flow, capital requirements, limitations under our debt indentures and other factors deemed relevant by our Board of Directors. We are a Delaware corporation and under the General Corporation Law of the State of Delaware, distributions may be restricted including a restriction that distributions, including stock purchases and dividends, do not result in an impairment of a corporation's capital, as defined under Delaware Law. The indentures governing our notes limit our ability to return cash to our stockholders. See Note 3 of our interim condensed consolidated financial statements for additional discussion of limitations on distributions.

**Future Capital Requirements**

We believe that our cash on hand and cash generated from our operating activities and cash from the IP Transit Services Agreement will be adequate to meet our working capital, capital expenditure, debt service, dividend payments and other cash requirements for the next 12 months and beyond the next 12 months 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, reduce our planned dividend payments, 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.

We may need to, or elect to, refinance all or a portion of our indebtedness at or before maturity and we cannot provide assurances that we will be able to refinance any such indebtedness on commercially reasonable terms or at all. In addition, we may elect to secure additional capital in the future, at acceptable terms, to improve our liquidity or fund acquisitions or for general corporate purposes. In addition, in an effort to reduce future cash interest payments as well as future amounts due at maturity or to extend debt maturities, we may, from time to time, issue new debt, enter into debt for debt, or cash transactions to purchase our outstanding debt securities in the open market or through privately negotiated transactions. We will evaluate any such transactions in light of the existing market conditions. The amounts involved in any such transaction, individually or in the aggregate, may be material.

*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 Estimates**

Management believes that as of September 30, 2024, 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, 2023.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Management believes that as of September 30, 2024, 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, 2023.

## 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 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 our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this report.

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 ordinary 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 1A. RISK FACTORS

Management believes that as of September 30, 2024, there have been no material changes to our risk factors from those disclosed in Item 1A “Risk Factors,” of our annual report on Form 10-K for the year ended December 31, 2023, except as noted below.

**We have substantial debt, which we may not be able to repay when due.**

Our total indebtedness, at par, at September 30, 2024 was $1.9 billion and includes $500.0 million of our 2026 Notes, $450.0 million of our 2027 Notes, $300.0 million of our 2027 Mirror Notes and $206.0 million of our IPv4 Notes. The 2026 Notes are due in March 2026 and require interest payments of $17.5 million per year, the 2027 Notes are due in June 2027 and require interest payments of $31.5 million per year, and the 2027 Mirror Notes are due in June 2027 and require interest payments of $21.0 million per year, each paid semi-annually. The IPv4 Notes are effectively due in May 2029 and require monthly interest payments of $16.3 million per year (which amount increases if the IPv4 Notes are not repaid prior to May 2029). All of our noteholders have the right to be paid the principal and any applicable premium upon an event of default and upon certain designated events, such as certain changes of control. Our total indebtedness at September 30, 2024 includes $482.6 million of finance lease obligations for dark fiber primarily under 15 to 42-year IRUs. Our total indebtedness at September 30, 2024 excludes $326.8 million of operating lease liabilities, which were required to be recorded as right-to-use assets and operating lease liabilities. The amount of our IRU finance lease obligations may be impacted due to our expansion activities, the timing of payments and fluctuations in foreign currency rates.

If we do not have sufficient funds to pay the interest, principal and premium related to these obligations at the time we are obligated to do so, we could be forced into bankruptcy, or we may only be able to raise the necessary funds on unfavorable terms.

**The agreements governing our various debt obligations impose restrictions on our business and could adversely affect our ability to undertake certain corporate actions.**

The agreements governing our various debt obligations include covenants imposing significant restrictions on our business. These restrictions may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. These covenants place restrictions on our ability to, among other things:

- incur additional debt;
- create liens;
- make certain investments;
- enter into certain transactions with affiliates;
- declare or pay dividends, redeem stock or make other distributions to stockholders; and
- consolidate, merge or transfer or sell all or substantially all of our assets.

In addition, our IPv4 address securitization facility requires us to maintain a specified debt service coverage ratio. Failure to maintain the debt service coverage ratio at a specified triggered level could adversely affect our business, including full or partial amortization or an event of default, as applicable. Our ability to comply with these agreements may be affected by events beyond our control, including prevailing economic, financial and industry conditions. These covenants could have an adverse effect on our business by limiting our ability to take advantage of financing, merger and acquisition or other corporate opportunities. The breach of any of these covenants or restrictions could result in a default under the agreements governing our debt obligations.

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

Our Board of Directors authorized a plan to permit the repurchase our common stock in negotiated and open market transactions through December 31, 2025. As of September 30, 2024, $22.4 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. There were no purchases of our common stock during the third quarter of 2024 made pursuant to this authorization.

**ITEM 5. OTHER INFORMATION**

During the three months ended September 30, 2024, no director or officer of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408 of Regulation S-K.

**ITEM 6. EXHIBITS.**

(a) Exhibits

| Exhibit Number | Description |
|---|---|
| 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 Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2024, formatted in Inline Extensible Business Reporting Language (XBRL), include: (i) the Condensed Consolidated Statements of Comprehensive Income (Loss), (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) related notes (filed herewith). |
| 104 | Cover Page Interactive Data File (the cover page XBRL tags are embedded within the iXBRL document). |

**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, 2024 | **COGENT COMMUNICATIONS HOLDINGS, INC.** |
| | By: /s/ David Schaeffer<br>Name: David Schaeffer<br>Title: Chief Executive Officer |
| Date: November 7, 2024 | By: /s/ Thaddeus G. Weed<br>Name: Thaddeus G. Weed |

**Exhibit 31.1**

**CERTIFICATIONS**

**Certification of Chief Executive Officer**

I, David Schaeffer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cogent Communications Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 7, 2024

/s/ David Schaeffer
Name: David Schaeffer
Title: Chief Executive Officer

**Exhibit 31.2**

**Certification of Chief Financial Officer**

I, Thaddeus G. Weed, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cogent Communications Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2024

/s/ Thaddeus G. Weed
Name: Thaddeus G. Weed
Title: Chief Financial Officer

**Exhibit 32.1**

**Certification of Chief Executive Officer**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Cogent Communications Holdings, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2024 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), of the Securities Exchange Act of 1934, (15 U.S.C. 78m or 78o(d)); and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 7, 2024

/s/ David Schaeffer
David Schaeffer
Chief Executive Officer

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**Exhibit 32.2**

**Certification of Chief Financial Officer**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Cogent Communications Holdings, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2024 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), of the Securities Exchange Act of 1934, (15 U.S.C. 78m or 78o(d)); and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 7, 2024

/s/ Thaddeus G. Weed
Thaddeus G. Weed
Chief Financial Officer

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.