

GLOBIX CORP  
Form 10-Q  
February 14, 2006

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**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2005

OR

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

COMMISSION FILE NO. 1-14168

**GLOBIX CORPORATION**

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

13-3781263  
(I.R.S. EMPLOYER  
IDENTIFICATION NO.)

139 CENTRE STREET, NEW YORK, NEW YORK  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

10013  
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (212) 334-8500

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities and Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

Number of shares of the Registrant's common stock outstanding as of February 9, 2006 was 48,697,465.

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## GLOBIX CORPORATION AND SUBSIDIARIES

### TABLE OF CONTENTS

	<u>PAGE</u>
Part I	
Financial Information	
<u>Item 1.</u>	
<u>Consolidated Balance Sheets -- As of December 31, 2005 (unaudited) and September 30, 2005</u>	1
<u>Interim Consolidated Statements of Operations -- For the Three Months Ended December 31, 2005 (unaudited)</u>	
<u>and for the Three Months Ended December 31, 2004 (unaudited)</u>	2
<u>Interim Consolidated Statements of Cash-Flows -- For the Three Months Ended December 31, 2005 (unaudited)</u>	
<u>and for the Three Months Ended December 31, 2004 (unaudited)</u>	3
<u>Notes to the Interim Unaudited Consolidated Financial Statements</u>	5
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	17
<u>Item 4.</u>	
<u>Controls and Procedures</u>	17
Part II	
<u>Other Information</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	18
<u>Item 1A.</u>	
<u>Risk Factors</u>	18
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	18
<u>Item 3.</u>	
<u>Defaults Upon Senior Securities</u>	18
<u>Item 4.</u>	
<u>Submission of Matters to a Vote of Security Holders</u>	18
<u>Item 5.</u>	
<u>Other Information</u>	18
<u>Item 6.</u>	
<u>Exhibits</u>	18
<u>Signatures</u>	19
Certifications	20-23

**GLOBIX CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**(AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

	DECEMBER 31, 2005	SEPTEMBER 30, 2005
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 8,931	\$ 9,011
Short-term investments	76	65
Accounts receivable, net of allowance for doubtful accounts of \$1,854 and \$1,950, respectively	14,187	11,174
Prepaid expenses and other current assets	4,514	4,007
Restricted cash	2,379	2,559
Total current assets	30,087	26,816
Investments, restricted	9,761	9,810
Property, plant and equipment, net	204,834	206,230
Intangible assets, net of accumulated amortization of \$4,131 and \$5,598, respectively	9,813	10,257
Other assets	4,310	4,540
Total assets	\$ 258,805	\$ 257,653
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of capital lease obligation and mortgage payable	\$ 503	\$ 564
Accounts payable	10,852	11,769
Accrued liabilities	18,772	17,418
Current portion of deferred revenue	5,460	5,443
Total current liabilities	35,587	35,194
Capital lease obligations, net of current portion	175	204
Mortgage payable	19,180	19,270
11% Senior Notes	67,455	67,455
9% Senior Notes	5,000	
Accrued interest - 11% Senior Notes	4,981	3,110
Deferred Revenue	14,992	15,903
Other long term liabilities	8,987	9,208
Total liabilities	156,357	150,344
Cumulative Convertible Preferred Stock	13,170	13,006
Commitments and contingencies		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, \$.01 par value; 500,000,000 shares authorized; 48,697,465 issued and outstanding, for both periods presented	487	487
Additional paid-in capital	209,066	207,314
Accumulated other comprehensive income	4,630	5,197
Accumulated deficit	(124,905)	(118,695)
Total stockholders' equity	89,278	94,303

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Total liabilities and stockholders' equity	\$	258,805	\$	257,653
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The accompanying notes are an integral part of these condensed consolidated financial statements.

**GLOBIX CORPORATION AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**  
**(UNAUDITED)**

	FOR THE THREE MONTHS ENDED	
	DECEMBER 31, 2005	DECEMBER 31, 2004
Revenue, net	\$ 31,688	\$ 16,530
Operating costs and expenses:		
Cost of revenue (excluding depreciation and amortization)	17,354	9,699
Selling, general and administrative	12,299	7,303
Depreciation and amortization	5,817	3,543
Total operating costs and expenses	35,470	20,545
Loss from operations	(3,782)	(4,015)
Interest and financing expense	(2,504)	(2,487)
Interest income	83	127
Other (expense) income, net	157	110
Net loss	(6,046)	(6,265)
Dividends and accretion on preferred stock	164	
Net loss attributable to common stockholders	\$ (6,210)	\$ (6,265)
Basic and diluted loss per share attributable to common stockholders	\$ (0.13)	\$ (0.38)
Weighted average common shares outstanding - basic and diluted	48,697,465	16,460,000

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

**GLOBIX CORPORATION AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**  
**(UNAUDITED)**

	FOR THE THREE MONTHS ENDED	
	DECEMBER 31, 2005	DECEMBER 31, 2004
Cash Flows From Operating Activities		
Net Loss	\$ (6,046)	\$ (6,265)
Operating activities:		
Depreciation and amortization	5,817	3,543
Provision for uncollectible receivables	255	4
Amortization of deferred compensation		23
Stock-based compensation	1,656	
Amortization of warrants	96	
Changes in assets and liabilities (net of acquisition):		
Decrease (increase) in accounts receivable	(3,361)	(1,161)
Decrease (increase) in prepaid expenses and other current assets	(538)	354
Decrease (increase) in other assets	230	(68)
Increase (decrease) in accounts payable	(862)	(1,124)
Increase (decrease) in accrued liabilities	1,487	204
Increase in accrued interest	1,871	2,002
Other	(1,046)	(156)
Net Cash Used in Operating Activities	(441)	(2,644)
Cash Flows From Investing Activities		
Proceeds from (investments in) short-term and long-term investments		936
Proceeds from restricted cash and investments	175	390
Proceeds from fiber optic exchange	1,960	
Deferred acquisition cost		(42)
Purchase of property, plant and equipment	(6,528)	(1,606)
Net Cash Used in Investing Activities	(4,393)	(322)
Cash Flows From Financing Activities		
Issuance of 9% Senior Notes	5,000	
Repayment of mortgage payable and capital lease obligation	(178)	(138)
Net Cash Provided by (Used in) Financing Activities	4,822	(138)
Effect of Exchange Rates Changes on Cash and Cash Equivalents	(68)	362
Decrease in Cash and Cash Equivalents	(80)	(2,742)
Cash and Cash Equivalents, Beginning of Period	9,011	12,075
Cash and Cash Equivalents, End Period	\$ 8,931	\$ 9,333

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Supplemental disclosure of cash flow information:

Cash paid for interest	\$	470	\$	484
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The accompanying notes are an integral part of these condensed consolidated financial statements.

**GLOBIX CORPORATION AND SUBSIDIARIES**  
**NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

**NOTE 1 - GENERAL**

Globix Corporation and its subsidiaries ( Globix or the Company ) is a provider of Internet services to businesses and, through its subsidiary NEON Communications, Inc. ( NEON ), the Company owns and operates a high bandwidth fiber optic network that supplies transport services to carriers and enterprise customers in the twelve-state Northeast and mid-Atlantic market. The Company currently offers services from facilities in New York City, New York, Westborough, Massachusetts, Fairfield, New Jersey, Santa Clara, California, and London, England. The Company's common stock is traded on the American Stock Exchange under the symbol GEX .

The Company has historically experienced negative cash flow from operations and has incurred net losses. For the three-month period ended December 31, 2005, the Company had a net loss attributable to common stockholders of \$6,210 and an accumulated deficit of \$124,905. The Company's ability to generate positive cash flows from operations and achieve profitability is dependent upon its ability to grow its revenue while maintaining its current cost structure and network efficiencies. The Company's board of directors has determined that interest on its 11% senior notes will be paid in kind on May 1, 2006. However, there can be no assurance that we will be successful in achieving sufficient profitability, attracting new customers, maintaining our existing revenue levels or reducing our outstanding indebtedness. In addition, in the future, the Company may make acquisitions or other investments, which, in turn, may adversely affect the Company's liquidity. In such cases management will have to take drastic steps to reduce its operating expenses to meet its liquidity needs. Such steps may include further reduction of our headcount, consolidation, elimination or sale of facilities, termination of low margin customers and negotiating with our creditors to restructure our indebtedness with, but not limited to, our 11% and 9% senior notes.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF PRESENTATION**

The consolidated financial statements of the Company have been prepared by the Company according to U.S. generally accepted accounting principles for interim financial information, and the rules and regulations of the Securities and Exchange Commission for interim consolidated financial statements. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles in the United States of America for complete financial statements. In the opinion of management, the unaudited interim consolidated financial statements furnished herein include all of the adjustments necessary for a fair presentation of the Company's financial position at December 31, 2005 and the three-month period then ended. All such adjustments are of a normal recurring nature. The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, contained in the 2005 Form 10-K. The results of operations for the three-month period ended December 31, 2005 are not necessarily indicative of the results for the entire fiscal year ending September 30, 2006.

**MANAGEMENT ESTIMATES**

The preparation of the Company's financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets, liabilities, revenue and expenses and related disclosures of contingent assets and liabilities.

Significant estimates include estimates of the allowance for doubtful accounts, credit reserve, the useful lives and ultimate realizability of property, equipment, intangible assets, deferred tax valuation allowance and payroll and occupancy cost allocations between cost of revenue and selling, general and administrative expenses. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period that they are determined to be necessary. Actual results may vary from these estimates under different assumptions or conditions.

**STOCK-BASED COMPENSATION**

In December 2004, the FASB issued SFAS 123(R). SFAS 123(R) eliminates the alternative to use the intrinsic value method of accounting that was provided in SFAS 123, which generally resulted in no compensation expense recorded in the financial statements related to the issuance of equity awards to employees. SFAS 123(R) requires that the cost resulting from all share based payment transactions be recognized in the financial statements. SFAS 123(R) establishes fair value as the measurement objective in accounting for share based payment arrangements and requires all companies to apply a fair value based measurement method in accounting for generally all share based payment transactions with employees.

On October 1, 2005 (the first day of our 2006 fiscal year), the Company adopted SFAS 123(R). The provisions of SFAS 123(R) became effective the first annual reporting period beginning after June 15, 2005. We adopted SFAS 123(R) using a modified prospective application, as



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permitted under SFAS 123(R). Accordingly, prior period amounts have not been restated. Under this application, we are required to

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## GLOBIX CORPORATION AND SUBSIDIARIES NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption.

Prior to the Company's adoption of SFAS No. 123(R), SFAS No. 123 required that the Company provide pro forma information regarding net earnings and net earnings per common share as if compensation cost for the Company's stock based awards had been determined in accordance with the fair value method prescribed therein. The Company had previously adopted the disclosure portion of SFAS No. 148, Accounting for Stock Based Compensation Transition and Disclosure, requiring quarterly SFAS No. 123 pro forma disclosure. The pro forma charge for compensation cost related to stock based awards granted was recognized over the service period. For stock options, the service period represents the period of time between the date of grant and the date each option becomes exercisable without consideration of acceleration provisions (e.g., retirement, change of control, etc.).

The following table illustrates the effect on net earnings per common share as if the fair value method had been applied to all outstanding awards for the three months ended December 31, 2004:

<b>Net loss, as reported attributable to common stockholders</b>	<b>\$ (6,265)</b>
Add: Stock-based employee compensation expense included	
In reported net loss	23
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(141)
<b>Pro forma net loss attributable to common stockholders</b>	<b>\$ (6,383)</b>
<b>Loss per share attributable to common stockholders</b>	
Basic and diluted earnings per share as reported	\$ (0.38)
Basic and diluted earnings per share pro forma	\$ (0.39)

Beginning with our 2006 fiscal year, with the adoption of SFAS 123(R), we included stock based compensation in selling, general and administrative expense for the cost of stock options. Stock based compensation expense for the three months ended December 31, 2005 was \$1,656 which includes the expense of \$1,608 associated with the hiring of Ted S. Lodge as Chairman of the Company's board of directors and as Executive Chairman of the Company (as previously disclosed in the form 8-K filed on November 3, 2005).

Under SFAS No. 123(R) the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model.

The Company granted options with an exercise price of \$2.75 to Mr. Lodge to purchase 1,000,000 shares of its common stock during the three-month period ended December 31, 2005. The Company did not grant any new options during the three-month period ended December 31, 2004.

### RECENT ACCOUNTING PRONOUNCEMENTS

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections A Replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. APB No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 requires retrospective application to prior periods financial statements for voluntary changes in accounting principle.

SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 will depend on the accounting change, if any, in a future period.

### NOTE 3 - ACQUISITION OF NEON COMMUNICATIONS, INC.

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On March 7, 2005, Globix completed its acquisition of NEON by purchasing all of the capital stock of NEON. The purchase price of \$112,862 consisted of \$5,349 in cash, the issuance of 27,573 shares of common stock with a fair value of \$83,507 (based on the average share price during the three day period before and after the announcement of the merger), the issuance of 2,972 shares of cumulative convertible preferred stock with a fair market value of \$12,639, the issuance of options and warrants to acquire 3,381 shares with a fair value

**GLOBIX CORPORATION AND SUBSIDIARIES**  
**NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

of \$7,928 and approximately \$3,439 of other direct acquisition costs. NEON owns and operates a high bandwidth fiber optic network, extending from Maine to Virginia. Through this network NEON provides metro and intercity communications coverage, as well as co-location space, to local and long distance telecommunications carriers and a small number of non-carrier customers, including universities, colleges and financial institutions, in various markets in the Northeast and mid-Atlantic regions. The estimate allocation of the purchase price is summarized below:

Cash and cash equivalents acquired	\$ 8,116
Accounts receivable acquired	1,976
Prepaid and other assets acquired	1,558
Restricted cash and investments acquired	7,501
Fair value of property, plant and equipment assumed	117,146
Identifiable intangible assets assumed	4,500
Other assets (assumed)	3,625
Accounts payable and accrued liabilities assumed	(12,133)
Deferred revenue assumed	(17,363)
Other liabilities assumed	(2,064)
	<u>\$ 112,862</u>

The following unaudited pro forma combined results of operations assume that the acquisition occurred on October 1, 2004. This unaudited information should not be relied upon as necessarily being indicative of future results.

FOR THE THREE MONTHS ENDED

December 31,  
2004

Revenue	\$ 28,788
Net loss	(7,095)
Basic and diluted net income per common share Pro-forma	\$ (0.15)
Weighted average common shares outstanding - basic and diluted	48,578,461

**NOTE 4 - SEGMENT INFORMATION**

Subsequent to the acquisition of NEON on March 7, 2005, the Company evaluates its results of operations based on two reportable segments in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. Prior to March 7, 2005, the Company evaluated its operations based on one reportable segment.

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**GLOBIX CORPORATION AND SUBSIDIARIES**  
**NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

	Three Months Ended DECEMBER 31, 2005	Three Months Ended DECEMBER 31, 2004
Revenues:		
Globix	\$ 16,374	\$ 16,530
NEON	15,314	
Corporate		
Consolidated	\$ 31,688	\$ 16,530
Operating income (loss):		
Globix	\$ 114	\$ (1,760)
NEON	1,695	
Corporate	(5,591)	(2,255)
Consolidated operating loss:	\$ (3,782)	\$ (4,015)

	DECEMBER 31, 2005	DECEMBER 31, 2004
Fixed assets:		
Globix	\$ 83,273	\$ 91,137
NEON	121,561	
Consolidated	\$ 204,834	\$ 91,137

Operating results and assets information by geographic area:

	Three Months Ended DECEMBER 31, 2005	Three Months Ended DECEMBER 31, 2004
Revenues:		
United States	\$ 25,285	\$ 8,882
Substantially United Kingdom	6,403	7,648
Consolidated	\$ 31,688	\$ 16,530
Operating income (loss):		
United States	\$ (4,505)	\$ (4,864)
Substantially United Kingdom	723	849

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Consolidated	<u>\$</u>	<u>(3,782)</u>	<u>\$</u>	<u>(4,015)</u>
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**GLOBIX CORPORATION AND SUBSIDIARIES**  
**NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

	DECEMBER 31, 2005	DECEMBER 31, 2004
Fixed assets:		
United States	\$ 181,558	\$ 63,633
Substantially United Kingdom	23,276	27,504
	<hr/>	<hr/>
Consolidated	\$ 204,834	\$ 91,137
	<hr/>	<hr/>

Although the Company operates in two reportable segments, there are 6 major service lines as follows:

	For the Three Months Ended	
	December 31, 2005	December 31, 2004
	<hr/>	<hr/>
Internet Hosting and Co-Location	\$ 8,251	\$ 6,070
Managed Services	5,304	5,425
Network Services and Internet Access	2,963	3,978
Lit Fiber Services	13,674	
Dark Fiber Services	1,153	
Hardware and Software Sales and Other	343	1,057
	<hr/>	<hr/>
Revenue, net	\$ 31,688	\$ 16,530
	<hr/>	<hr/>

**NOTE 5 - COMPREHENSIVE LOSS**

	For the Three Months Ended	
	December 31, 2005	December 31, 2004
	<hr/>	<hr/>
Net loss attributable to common stockholders	\$ (6,210)	\$ (6,265)
Other comprehensive income:		
Unrealized gain on marketable securities available for sale		242
Foreign currency translation adjustment	568	1,879
	<hr/>	<hr/>
Comprehensive loss	\$ (5,642)	\$ (4,144)
	<hr/>	<hr/>

**NOTE 6 - COMMITMENTS AND CONTINGENT LIABILITIES**

From time to time, the Company is involved in legal proceedings in the ordinary course of our business operations. Although there can be no assurance as to the outcome or effect of any legal proceedings to which the Company is a party, the Company does not believe, based on currently available information, that the ultimate liabilities, if any, arising from any such legal proceedings would have a material adverse impact on our business, financial condition, results of operations or cash flows.

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There have been no developments in ongoing legal proceedings nor have any material litigations been commenced or threatened since the prior descriptions in Note 16 to the Consolidated Financial Statements in the 2005 Form 10-K, and the Legal Proceedings section thereto.

### NOTE 7 - DEBT FINANCING

In order to obtain additional financing to meet the Company's needs for working capital, on December 13, 2005, the Company issued and sold \$5 million in principal amount of its 9% senior notes to a group of investors. The notes mature on May 1, 2008. Interest on the notes is payable quarterly in arrears, beginning January 1, 2006. One percent of the proceeds of the notes was used to pay a one time origination fee to the note purchasers at closing. The notes are secured by a first priority security interest in domestic accounts receivable in the amount of 150% of the principal amount of the notes. Covenants and events of default under the notes are generally no more onerous than those contained in the indenture relating to the Company's outstanding 11% senior notes, except that the new notes limit the incurrence of additional senior debt that otherwise might be permitted under the 11% senior notes. The new notes can be prepaid without penalty or premium at any time following 30 days notice.

Purchasers of the notes include: LC Capital Master Fund Ltd., an investment fund managed by an investment advisor with which one member of the Company's Board of Directors, Steven Lampe, is affiliated; Karen Singer, the sister-in-law of another Board member, Steven Singer; and Metronome LPC 1, Inc., an affiliate of Loeb Partners Corp., which (together with its affiliates) is the beneficial owner of



**GLOBIX CORPORATION AND SUBSIDIARIES**  
**NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

approximately 7.9% of our common stock. LC Capital Corp. Ltd. is the beneficial owner of approximately 10.9% of the Company's common stock (including 462,462 shares that may be acquired upon conversion of our convertible preferred stock). Karen Singer is the sole trustee of the Singer Children's Management Trust, which is the beneficial owner of approximately 8.8% of the Company's common stock (including 699,099 shares that may be acquired on conversion of the preferred stock). The principal amounts purchased by these holders are \$1 million for LC Capital Master Fund Ltd., \$1 million for Karen Singer and \$1 million for Metronome. Steven Singer disclaims any beneficial ownership interest in the 9% notes. The transaction was approved by all of the disinterested members of the board of directors.

Prior to commencing discussions with the purchasers of the notes, the Company approached and made presentations to a number of unaffiliated financial institutions in its efforts to locate working capital financing. The Company believes that the terms of the 9% notes are significantly better than the terms of any written proposal received by it, based on the financial terms of the loan and associated transactional costs, as well as better prepayment and other operational terms.

**NOTE 8 - DEBT FOR EQUITY EXCHANGE**

As a condition to the closing of the acquisition of Neon, Globix exchanged \$12.5 million in principal and accrued interest on its 11% senior notes in exchange for 4,545,455 shares of its common stock in private transactions pursuant to separate securities exchange agreements with certain holders of the 11% senior notes. LC Capital Master Fund Ltd., an entity affiliated with Steven Lampe, a member of the Board of Directors of Globix, exchanged \$1.25 million in 11% senior notes for 454,545 shares of common stock. This exchange resulted in a loss of \$3.2 million in the quarter ended March 31, 2005. Globix has filed a registration statement covering the sale of the common stock issued in the debt for equity exchange. The debt-for-equity exchange agreements provide that the exchanging holders will have the right to purchase an additional 22,728 shares of common stock at \$2.75 per share in the event that a registration statement covering shares is not effective within 120 days following the closing of the merger, and an additional 22,728 shares at \$2.75 per share if the registration statement is not effective for more than 90 days during the first twelve months commencing on the 90th day following the closing of the merger. At July 6, 2005, the exchanging holders had the right to purchase 22,728 additional shares in the aggregate as a result of the failure of the registration statement to become effective. The registration statement became effective on September 27, 2005.

**NOTE 9 - PREFERRED STOCK**

Globix has authorized 4,500,000 shares of 6% Series A Cumulative Convertible Preferred Stock (preferred stock), of which 2,971,753 shares were issued in the acquisition of Neon. Each share of preferred stock is convertible into one share of common stock at the option of the holder, is entitled to one vote, has a liquidation preference of \$3.60 per share plus accrued dividends, and is senior to the common stock of Globix. Dividends are payable semi-annually at a rate of \$0.11 per share when and if declared by the Board of Directors. At the option of Globix, dividends are payable in cash or additional shares of preferred stock. At the option of Globix, shares of preferred stock can be redeemed in whole or in part at \$3.82 per share, plus accrued dividends, in 2006, \$3.71 per share, plus accrued dividends, in 2007 and \$3.60 per share, plus accrued dividends, thereafter. In the event of a change of control, as defined, each holder of preferred stock can require Globix to purchase such holder's shares of preferred stock for a price equal to \$3.64 plus accrued and unpaid dividends to the purchase date. As of December 31, 2005, a dividend of \$531 thousand in the aggregate, payable in either cash or additional shares of preferred stock at \$3.60 per share, had accrued on the outstanding shares of preferred stock.

**NOTE 10 - WARRANTS ISSUED**

As of May 1, 2005, Globix issued a warrant to Further Lane Asset Management, LLC to purchase 250,000 shares at a purchase price of \$4.00 per share in a private transaction exempt from registration under Section 4(2) of the Securities Act of 1933, in exchange for financial advisory services to be provided to Globix by Further Lane. One twelfth of the warrants become exercisable in each month so that all warrants will be vested on May 1, 2006. The warrants expire on May 1, 2008.

**NOTE 11 - FIBER OPTIC EXCHANGE**

On December 30, 2005 the NEON division of Globix entered into a fiber optic exchange agreement with AT&T Corp. Globix provided fiber along its New York City to Washington, DC route in exchange for fiber principally located in northern New Jersey and greater Philadelphia and \$1,960 in cash from AT&T. The Company treated this as a reduction of the fair value of the plant, property and equipment acquired in the NEON acquisition. No gain or loss resulted from the exchange.



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

### Cautionary Statement Regarding Forward-Looking Statements

Certain statements in this Form 10-Q, under the captions Management's Discussion and Analysis of Financial Condition and Results of Operations, Quantitative and Qualitative Disclosures about Market Risk, and Legal Proceedings, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve unknown and uncertain risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements.

Forward-looking statements are identified by the use of forward-looking words or phrases such as anticipates, intends, expects, believes, estimates, or words or phrases of similar import. These forward-looking statements are subject to numerous assumptions, risks, and uncertainties and the statements looking forward beyond fiscal 2006 are subject to greater uncertainty because of the increased likelihood of changes in underlying factors and assumptions. Actual results could differ materially from those anticipated by the forward-looking statements. Among these factors are the Company's high degree of leverage and history of operating losses, its ability to retain existing customers and attract new customers, its ability to achieve cost-savings and generate positive cash flow, risks associated with potential acquisitions and divestitures and other factors affecting the Company's business generally. Such factors are more fully described herein and in the Company's Annual Report on Form 10-K for the year ended September 30, 2005, which should be considered in connection with a review of this report. For a general discussion of risks affecting the Company's business, see Risk Factors in the Company's Annual Report on Form 10-K for the year ended September 30, 2005.

### OVERVIEW

We are a provider of Internet services to businesses and, through our subsidiary NEON Communications, Inc. ( NEON ), we own and operate a high bandwidth fiber optic network that supplies transport services to carriers and enterprise customers in the twelve-state Northeast and mid-Atlantic market. We currently offer services from facilities in New York City, New York, Westborough, Massachusetts, Fairfield, New Jersey, Santa Clara, California, Atlanta, Georgia and London, England. The Company's common stock is traded on the American Stock Exchange under the symbol GEX .

On March 7, 2005, we completed our acquisition of all of the capital stock of NEON valued at \$112.9 million in exchange for common and convertible preferred stock of Globix worth approximately \$96.2 million, options and warrants of Globix common stock worth approximately \$7.9 million, direct closing costs of approximately \$3.4 million and approximately \$5.4 million in cash. Simultaneously with the closing of the acquisition, we exchanged \$12.5 million in principal and interest on our 11% senior notes for 4,545,455 shares of common stock.

On December 13, 2005, we issued and sold \$5 million in principal amount of our 9% senior secured notes due May 1, 2008. For further information about the terms of this financing, see Note 7 of these financial statements.

### OVERVIEW: OUR MAJOR SERVICE LINES

Although we operate in two reportable segments, there are 6 major service lines as follows:

**INTERNET HOSTING AND CO-LOCATION** - We offer co-location solutions for customers who choose to own and maintain their own servers and or optronics, but require the physically secure, climate-controlled environment provided by our data centers and connectivity to our network. We offer hosting services in a dedicated server environment. This service includes providing integrated hardware usage, bandwidth and managed services to meet customer-specific needs.

**MANAGED SERVICES** - We provide managed application, system, network and media services to our hosting and co-location customers. Such services include a wide variety of maintenance, administration and problem resolution services for many popular operating systems, Internet network devices, software security solutions, web-based applications, as well as streaming media delivered in a streaming or continuous fashion over the Internet or over a company's intranet.

**NETWORK SERVICES AND INTERNET ACCESS** - We provide access to our network for our hosting and co-location customers located inside of our Internet data centers as well as Internet access services which provide businesses with high-speed continuous access to the Internet from their own premises. In addition, we provide other services, such as domain name registration, local loop provisioning, Internet address assignment, router configuration, e-mail configuration and management and technical consulting services.

**LIT FIBER SERVICES (TRANSPORT SERVICES)** - We provide dedicated, point-to-point services provided over fiber optic transmission lines that have electronic or optronic equipment installed and maintained by NEON. Specific service offerings include: SONET Private Line services at bandwidth levels including DS-3, OC-3, OC-12 and OC-48; Wavelength (DWDM) services enabling flexible and scalable high



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capacity transport at 2.5 and 10 Gbps, configured as either protected or unprotected wavelengths; and Ethernet services via dedicated, point-to-point connectivity offered as Fast Ethernet (FastE) at 50 or 100 Mbps and Gigabit Ethernet (GigE) at 600 or 1000 Gbps.

**DARK FIBER SERVICES** - We lease fiber cable in our fiber optic network running from Portland, ME to Washington, DC. The fiber cable is leased without electronic or optronic equipment installed by NEON.

**OTHER** - Hardware and software sales and other non-recurring revenue from our Globix business segment. Hardware and software sales are typically tied to agreements to provide recurring services such as hosting, network services, managed services and etc.

Our Globix business segment includes all of our Internet services except for co-location services that are provided at various locations along our fiber optic network, which we include in our NEON business segment. Our NEON business segment includes lit and dark fiber services utilizing our fiber optic network, and co-location services along this network.

### OVERVIEW: STRATEGY

Our strategy is to grow profitably by selling a more profitable mix of business, continued investment in revenue supporting infrastructure and through targeted acquisitions, where feasible. Our transport business has experienced consistent revenue growth and profitability improvement through success based investments to meet the growing needs of our customers. To the extent the company has the financial resources to continue making these investments it will do so. Our transport business will continue to focus on selling into the carrier and large enterprise markets. Within these segments our key customer targets are wireless providers, competitive local exchange carriers (CLECs), inter-exchange carriers, financial services providers and universities.

In our hosting business we continue to be focused on improving the cost structure, selling a more profitable mix of services, and limited infrastructure expansion investments. The target market for the hosting segment is small to medium size businesses, and the company seeks to optimize its profitability with each customer by offering them a package of services that includes co-location, internet access and managed services.

Growth through acquisition offers the possibility of revenue growth and the expansion of service territory and service offerings to enable us to compete more effectively, while providing a larger revenue base to support our existing indebtedness. The ability to achieve operating efficiencies by combining administrative or other functions is also a consideration in reviewing possible acquisitions. Because of our limited availability to cash and our limited access to capital markets, we may not be able to pursue an acquisition strategy and, in fact, may be forced to divest some or all of our businesses.

Although the acquisition of NEON and the concurrent debt-for-equity exchange have increased our revenues and asset base and reduced the total amount of our indebtedness, we remain highly leveraged. Our board of directors has elected to pay annual accrued interest of approximately \$7.4 million on the 11% senior notes through the issuance of additional notes on May 1, 2006.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our interim consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our financial statements requires us to make estimates that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. We base our accounting estimates on historical experience and other factors that are believed to be reasonable under the circumstances. However, actual results may vary from these estimates under different assumptions or conditions. The following is a summary of our critical accounting policies and estimates:

### REVENUE RECOGNITION

Revenue consists primarily of Internet hosting, co-location, managed services, network services, internet access, lit fiber services and dark fiber services.

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We recognize revenue in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin (SAB), No. 104 - Revenue Recognition.

The Globix business segment recognizes revenue when delivery has occurred, persuasive evidence of an agreement exists, the fee is fixed or determinable and collectability is probable. SAB No. 104 expresses the view of the Securities and Exchange Commission's staff in applying accounting principles generally accepted in the United States of America to certain revenue recognition issues. Under the provisions of SAB No. 104, set up and installation revenue are deferred and recognized over the estimated length of the customer relationship, which in the case of our Globix segment is approximately 36 months. Monthly service revenue under recurring agreements related to Internet hosting, co-location, network services, Internet access and managed services is recognized over the period that service is provided. Revenue derived

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from project or event type managed service engagements is recognized over the life of the engagement. Payments received in advance of providing services are deferred until the period that these services are provided.

The NEON business segment offers leases of lit fiber (fixed amounts of capacity on fiber optic transmission lines that use optronics equipment installed by us) and longer term leases of dark fiber (fiber optic transmission lines leased without optronics equipment installed by us) at fixed cost pricing over multi year terms. Revenues from fiber optic network services are recognized ratably over the term of the applicable lease agreements with customers, which range from one to 20 years, provided there exists persuasive evidence of an arrangement, the fee is fixed or determinable and collectability of the related receivables is reasonably assured. Amounts billed in advance of the service provided are recorded as deferred revenue. We also lease space to customers at our co-location facilities. Revenues from nonrecurring installation charges and design, engineering and construction services are recognized ratably over the multi-year network services terms to which the nonrecurring charges relate provided there exists persuasive evidence of an arrangement, the fee is fixed or determinable and collectability of the related receivables is reasonably assured.

### COST OF REVENUE

Cost of revenue for Internet services consists primarily of telecommunications costs for Internet access and managed hosting, payroll and occupancy which we incur in support of our network operations, systems and customer services and the cost of hardware and software purchased for resale to customers. Payroll costs allocated to cost of revenue are based on the primary activity of the department such as maintaining the network, customer support and systems operations. Occupancy costs allocated to cost of revenue are based primarily on the square footage of our various facilities. Cost of revenue excludes depreciation and amortization. Telecommunications costs include the cost of providing local loop for connecting dedicated access customers to our network, leased line and associated costs related to connecting with our peering partners and costs associated with leased lines connecting our facilities to its backbone and aggregation points of presence.

Cost of revenue for fiber services consists primarily of right of way fees, dark fiber leases, real estate and co-location leases, last mile circuit leases and network operations and maintenance costs. Right of way fees are paid primarily to utilities and public and private entities for the right to place fiber optic cable on their structures and property. Fiber leases are fees paid to other telecommunications providers for the use of their dark fiber over which we provide transport services. We lease real estate and co-location space to allow placement of optronics equipment to power our network. Last mile circuit leases consist of services from other carriers and local phone companies to extend transport services beyond our network to a customer location. Network operations and maintenance consists primarily of labor, contractor services and utility costs.

### PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment are stated at depreciated historical cost adjusted for impairment and include fresh start adjustments. Depreciation is provided using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. The estimated useful lives of property are as follows:

#### YEARS

Buildings and buildings improvements	10	44
Computer hardware and software and network equipment	2	20
Office furniture and equipment	3	7

Leasehold improvements are amortized over the term of the lease or life of the asset, whichever is shorter. Maintenance and repairs are charged to expense as incurred. The cost of additions and betterments are capitalized. The cost and related accumulated depreciation of property retired or sold are removed from the applicable accounts and any gain or loss is taken into income.

Software obtained for internal use is stated at depreciated historical cost adjusted for impairments and fresh start adjustments and is depreciated using the straight-line method over its estimated useful life.

Our long-lived assets are reviewed for impairment in accordance with Statement of Financial Accounting Standard No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets ( SFAS No. 144 ) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

## INTANGIBLE ASSETS

We adopted SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets when we emerged from bankruptcy in April 2002. SFAS 141 requires all business combinations to be accounted for using the purchase method of accounting and that certain intangible assets acquired in a business combination must be recognized as assets separate from goodwill. SFAS No. 142 addresses the recognition and measurement of goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 also addresses the initial recognition and measurement of intangible assets acquired outside of a business combination whether acquired individually or with a group of other assets. SFAS No. 142 provides that intangible assets with indefinite lives and goodwill will not be amortized but, will be tested at least annually for impairment. If an impairment is indicated then the asset will be written down to its fair value typically based upon its future expected discounted cash flows.

Our intangible assets are as follows:

trademarks and trade name;

network build-out/know-how; and

customer contracts.

We amortize intangible assets by the straight-line method over their estimated useful lives. Trademarks and trade name are amortized over a period of 7-15 years, network build-out/know-how is amortized over 8 years and the customer contracts are amortized over 2-10 years.

## ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. Use of estimates and assumptions include, but is not limited to, allowance for doubtful accounts, credit reserve, the useful lives and ultimate realizability of property, equipment, intangible assets, deferred tax valuation allowance and payroll and occupancy cost allocation between cost of revenue and selling, general and administrative expenses. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period that they are determined to be necessary. Actual results may vary from these estimates under different assumptions or conditions.

## ALLOWANCE FOR DOUBTFUL ACCOUNTS AND CREDIT RESERVE

At each reporting period we evaluate on a specific basis the economic condition of our customers and their ability and intent to pay their debt. If such evaluation shows that it is probable that a customer will not settle his full obligation, a reserve against accounts receivable in general and administrative expense is recorded for the questionable amount. We also maintain a general bad debt reserve, which is based on the aging of our customers receivables. In addition during each reporting period we must make estimates of potential future credits, which will be issued in respect of current revenues. We analyze historical credits and changes in customer demands regarding our current billings when evaluating credit reserves. If such analysis shows that it is probable that a credit will be issued, we reserve the estimated credit amount against revenues in the current period. As of December 31, 2005 and September 30, 2005 the balance of bad debt reserve amounted to approximately \$1.9 million and \$2.0 million, respectively.

## ACCOUNTING FOR INCOME TAXES

As part of the process of preparing our consolidated financial statements we are required to estimate our income tax expense in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as accruals and reserves, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. Management currently estimates that it is more likely than not that these assets will not be realized in the foreseeable future and accordingly a 100% valuation allowance is recorded against the deferred tax assets.

## QUARTER ENDED DECEMBER 31, 2005 COMPARED TO THE QUARTER ENDED DECEMBER 31, 2004

*REVENUE, NET.* Revenue for the quarter ended December 31, 2005 increased 92.1%, or approximately \$15.2 million, to \$31.7 million from \$16.5 million for the quarter ended December 31, 2004. Excluding \$15.3 million of revenue as a direct result of the NEON acquisition,





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revenue for the quarter ended December 31, 2005 decreased by 0.6% or approximately \$0.1 million compared to the quarter ended December 31, 2004.

Revenue breakdown for the major service lines are as follows. Revenue from Internet Hosting and Co-Location increased by \$2.2 million, or 36.1%, to \$8.3 million in the three month ended December 31, 2005 compared to \$6.1 million in the same period in fiscal quarter 2004. Revenue from Network Services and Internet Access decreased by \$1.0 million, or 25.0%, to \$3.0 million in the three months ended December 31, 2005 compared to \$4.0 million in the same period of quarter 2004. The changes in these two major service lines are mainly due to churn. Churn is defined as contractual revenue losses as a percentage of total contractual revenue due to customer cancellations and downgrades, net of upgrades, and additions of new services. Revenue from Hardware and Software Sales and Other decreased by \$0.8 million to \$0.3 million in the three month period ended December 31, 2005 compared to \$1.1 million in the same period in 2004, which resulted primarily from a decrease in Hardware sales. Revenue from Managed Services was \$5.3 million in the three month period ended December 31, 2005 compared to \$5.4 million in the same period in 2004. Foreign exchange rates between the U.S. dollar and the British Pound did not have a material effect on the aforementioned analysis.

Revenue from Lit and Dark Fiber Services, services newly offered in 2005 as a result of the acquisition of NEON, were \$13.7 million and \$1.2 million, respectively, for the three month period ended December 31, 2005.

**COST OF REVENUE.** Cost of revenue for the quarter ended December 31, 2005 increased to \$17.4 million from \$9.7 million in the quarter ended December 31, 2004. Excluding the \$8.4 million impact of NEON, cost of revenues decreased by \$0.7 million primarily attributable to a decrease in hardware sales in the quarter ended December 31, 2005 over December 31, 2004 resulting in a \$0.9 million decrease in expense. In addition, our cost of revenue related to managed services increased by approximately \$0.4 million due primarily to increased use contractors. These increases were offset partly by a decrease in network cost resulting from deriving efficiencies and cost savings from our network. Foreign exchange rates between the U.S. dollar and the British Pound did not have a material effect on the aforementioned analysis.

**SELLING, GENERAL AND ADMINISTRATIVE.** Selling, general and administrative expenses were \$12.3 million for the quarter ended December 31, 2005 as compared to \$7.3 million for the quarter ended December 31, 2004. This increase included \$3.2 million of selling, general and administrative expenses for NEON. The remaining increase of \$1.8 million is primarily the result of a non-cash expense associated with options granted to employees of \$1.7 million, of which \$1.6 million reflected a grant to our new chairman of the board when he joined the Company. Additionally, there were \$0.7 million increases in professional fees and \$0.4 million increases in utilities, offset by a \$1.0 million decrease in salaries and benefits and miscellaneous other minor reductions. Foreign exchange rates between the U.S. dollar and the British Pound did not have a material effect on the aforementioned analysis.

**DEPRECIATION AND AMORTIZATION.** Depreciation and amortization expenses for the quarter ended December 31, 2005 were \$5.8 million compared to \$3.5 million for the quarter ended December 31, 2004. This increase of \$2.3 million is primarily the result of the acquisition of NEON which accounted for \$2.8 million of the total expense recorded.

**INTEREST AND FINANCING EXPENSES.** Interest and financing expense for the quarter ended December 31, 2005 was \$2.5 million, compared to \$2.5 million for the quarter ended December 31, 2004.

**INTEREST INCOME.** Interest income for the quarter ended December 31, 2005 was \$0.1 million, compared to \$0.1 million for the quarter ended December 31, 2004.

**OTHER INCOME/EXPENSE, NET.** Other income for quarter ended December 31, 2005 was \$0.2 million, compared to other income of \$0.1 million for the quarter ended December 31, 2004.

**NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS.** As a result of the factors described above, we reported a net loss attributable to common stockholders of \$6.2 million, or \$0.13 basic and diluted loss per share attributable to common stockholders, for the quarter ended December 31, 2005, as compared to a net loss attributable to common stockholders of \$6.3 million, or \$0.38 basic and diluted loss per share attributable to common stockholders for the quarter ended December 31, 2004.

### LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2005, our negative working capital was \$5,500 as compared to \$8,378 as of September 30, 2005. The increase in working capital as of December 31, 2005 was primarily due to the proceeds received from the issuance of our 9% senior notes.

Historically our cost structure in the Globix business segment exceeded our revenue base mainly due to high labor costs resulting from higher than necessary head count and a significant level of overhead due to numerous locations and overlapping within our network. This has led us to experience negative cash flows from operations and incur net losses. Our management believes that steps taken as part of our restructuring efforts to reduce facilities and personnel, combined with our ongoing efforts to derive efficiencies from our network have reduced our cash

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outflows, net of capital expenditures, to a level that approximates our cash inflows. In the second half of fiscal 2005, however, we experienced a demand for additional capital investment in the NEON business segment as well as unexpected operating costs and capital requirements in the Globix business segment. Our ability to generate positive cash flows from operations and achieve

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profitability is dependent upon our ability to grow our revenue while controlling costs and becoming more efficient. Management believes it will ultimately be able to meet its revenue and profitability targets by:

maintaining a monthly positive change in contract rate (negative churn),

pursuing long term contracts that take advantage of market demand for fiber optic network services,

focusing on the most profitable business lines within our existing capital and infrastructure constraints, including the provision of services solutions,

increasing prices, where possible and within current industry trends, for services such as power and space and

increasing the efficiency of our operations

There can be no assurance that we will be successful in achieving sufficient profitability, attracting new customers, maintaining our existing churn levels or reducing our outstanding indebtedness. In addition, in the future, we may make acquisitions or investments, which, in turn, may adversely affect our liquidity. In such cases we will have to take drastic steps to reduce our operating expenses to meet our revenue base and liquidity needs. Such steps may include further reduction of our headcount, consolidation or elimination of facilities, termination of low margin customers, reduction of capital expenditures and negotiating with our creditors to restructure our indebtedness, mainly but not limited to our 11% and 9% senior notes.

As a result of the acquisition of NEON, we assumed commitments under standby letters of credit, issued primarily to secure certain leases, totaling approximately \$7.1 million at December 31, 2005. We have no financial guarantees or other arrangements securing the obligations of any third parties or related parties other than our subsidiaries. Because of our limited availability to cash and our limited access to capital markets, we may not be able to pursue an acquisition strategy and, in fact, may be forced to divest some or all of our businesses.

The indenture governing the 11% senior notes and the terms of the 9% senior notes contain a number of covenants that impose significant operating and financial restrictions on us and our subsidiaries. These restrictions significantly limit, and in some cases prohibit, among other things, the ability of our company and certain of our subsidiaries to incur additional indebtedness, create liens on assets, enter into business combinations or engage in certain activities with our subsidiaries.

### **THREE-MONTH PERIOD ENDED DECEMBER 31, 2005**

As of December 31, 2005, we had cash and cash equivalents totaling approximately \$8.9 million compared to approximately \$9.3 million on December 31, 2004. This decrease was mainly attributable to operating activities, investing activities and financing activities as described below.

**OPERATING ACTIVITIES.** Net cash used in operating activities during the three-month period ended December 31, 2005 was approximately \$0.4 million as compared to \$2.6 million during the three-month period ended December 31, 2004, or a \$2.2 million improvement. The improvement in our cash burn was due to the improvement in our operating results and our ongoing focus on cost control by adjusting our expenditure rate to our revenues.

We had non-cash depreciation and amortization expenses of \$5.8 million and accrued interest expense of \$1.9 million resulting on our 11% senior notes, which will be paid in kind during May 2006. Partially offsetting this was the non-cash expense associated with the amortization of employee stock options, a non-cash gain on the exchange of property, plant, and equipment of \$1.0 and a \$3.4 million increase in our accounts receivable.

**INVESTING ACTIVITIES.** Net cash used in investing activities during the three-month period ended December 31, 2005 was \$4.4 million. This was attributable primarily to \$6.5 million paid for capital expenditures. This was partially offset by the proceeds received from AT&T from the fiber optic exchange of \$2.0 million.

**FINANCING ACTIVITIES.** Net cash provided by financing activities during the three-month period ended December 31, 2005 was \$4.8 million, which was attributable to proceeds from the issuance of our 9% senior notes of \$5.0 million, partially offset by the repayments of mortgage payable and capital lease obligations of \$0.2 million.

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

At December 31, 2005, \$12.1 million of our cash and investments were restricted in accordance with the terms of certain collateral obligations.

We are also subject to market risk associated with foreign currency exchange rates. To date, we have not utilized financial instruments to minimize our exposure to foreign currency fluctuations. We will continue to analyze risk management strategies to minimize foreign currency exchange risk in the future.

We believe that we have limited exposure to financial market risks, including changes in interest rates. The fair value of our investment portfolio or related income would not be significantly impacted by changes in interest rates due mainly to the short-term nature of the majority of our investment portfolio. An increase or decrease in interest rates would not significantly increase or decrease interest expense on debt obligations, due to the fixed nature of the substantial majority of our debt obligations.

**ITEM 4. CONTROLS AND PROCEDURES**

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.** We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our report 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 Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management, with the participation of our Chief Executive Officer and Principal Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2005. Based upon that evaluation and subject to the foregoing, our Chief Executive Officer and Principal Financial Officer concluded that the design and operation of our disclosure controls and procedures provided reasonable assurance that the disclosure controls and procedures are effective to accomplish their objectives.

**INTERNAL CONTROLS.** There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, the Company is involved in legal proceedings in the ordinary course of our business operations. Although there can be no assurance as to the outcome or effect of any legal proceedings to which the Company is a party, the Company does not believe, based on currently available information, that the ultimate liabilities, if any, arising from any such legal proceedings would have a material adverse impact on our business, financial condition, results of operations or cash flows.

There have been no developments in ongoing legal proceedings nor have any material litigations been commenced or threatened since the prior descriptions in Note 16 to the Consolidated Financial Statements in the 2005 Form 10-K, and the Legal Proceedings section thereto.

**ITEM 1A. RISK FACTORS**

No material changes since the 2005 Form 10-K.

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

Not Applicable.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not Applicable.

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

Not Applicable.

**ITEM 5. OTHER INFORMATION**

Not Applicable.

**ITEM 6. EXHIBITS**

(a) Exhibits

<u>Exhibit</u>	<u>Description</u>
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**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.

GLOBIX CORPORATION

By: /S/ Peter K. Stevenson

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Peter K. Stevenson,  
Chief Executive Officer

Date: February 14, 2006

By: /S/ Henry J. Conicelli

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Henry J. Conicelli  
Principal Accounting Officer

Date: February 14, 2006

By: /S/ Eric J. Sandman

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Eric J. Sandman  
Principal Financial Officer

Date: February 14, 2006