GLOBIX CORP
Form 10-Q
May 15, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2002

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND 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 |X| No |_|

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

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...... Not Applicable - Securities not yet distributed.

APPLICABLE ONLY TO CORPORATE ISSUERS

Number of shares of the Registrant's common stock outstanding as of April 24, 2002 was 41,896,479.

GLOBIX CORPORATION AND SUBSIDIARIES

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GLOBIX CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(All Dollars in Thousands, Except Share and Per Share Data)

Assets

Current assets:

Cash and cash equivalents ....

Marketable securities ....

Accounts receivable, net of allowance for doubtful accounts of $2,129 and $6,852, respectively ....

Prepaid expenses and other current assets ....

Restricted cash ....

Total current assets ....

Investments, restricted ....

Property, plant and equipment, net ....

Debt issuance costs, net of accumulated amortization of $2,543 and $1,896,

respectively	
Intangible assets, net of accumulated amortization of $0 and $2,485, respectively	
Other assets	
Total assets	
Liabilities and Stockholders' Deficit	
Current liabilities:	
Capital lease and other obligations	
Accounts payable	
Accrued liabilities	
Accrued interest	
Total current liabilities	
Capital lease obligations, net of current portion	
Mortgage payable	
Senior Notes (see Note 5)	
Other long term liabilities	
Total liabilities	
Minority interest in subsidiary	
Redeemable convertible preferred stock (see Note 7)	
Stockholders' Deficit:	
Common stock, $.01 par value; 500,000,000 shares authorized; 41,896,479 and 41,920,229 shares issued and outstanding, respectively	
Additional paid-in capital	
Deferred compensation	
Accumulated other comprehensive income	
Accumulated deficit	
Total stockholders' deficit	
Total liabilities and stockholders' deficit	

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

GLOBIX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(All Dollars in Thousands, Except Share and Per Share Data)
(unaudited)

	Three Months Ended Mar	
	2002	

Revenue	$ 21,389	$ 2
Operating costs and expense:		

Cost of revenue	9,737	1
Selling, general and administrative	21,402	2
Restructuring expenses	48,447	
Impairment of intangible assets	3,220	
Depreciation and amortization	12,174	
Total operating costs and expenses	94,980	4
Loss from operations	(73,591)	(1
Interest and financing expense	(14,036)	(1
Interest income	875	
Other income/(expense)	(472)	
Minority interest in subsidiary	955	
Loss before cumulative effect of a change in accounting principle	(86,269)	(3
Cumulative effect of a change in accounting principle	--	
Net loss	(86,269)	(3
Dividends and accretion on preferred stock	(1,329)	(
Net loss attributable to common stockholders'	$ (87,598)	$ (3
Basic and diluted loss per share attributable to common stockholders' before cumulative effect of a change in accounting principle	$ (2.21)	$
Cumulative effect of a change in accounting principle	--	
Basic and diluted net loss per share attributable to common stockholders'	$ (2.21)	$
Weighted average common shares outstanding--basic and diluted	39,688,862	38,70

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

GLOBIX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(All Dollars in Thousands, Except Share and Per Share Data)

Cash flows from operating activities:
Net loss ....
Adjustments to reconcile net loss to net cash used in operating activities:
Depreciation and amortization ....
Provision for uncollectible accounts receivable ....

Cumulative effect of a change in accounting principle
Restructuring expenses
Minority interest in subsidiary
Gain on sale of short term investment
Gain on sale of marketable securities
Loss on impairment of intangible assets
Loss on impairment of investments
Amortization of debt issuance costs
Amortization of deferred compensation
Changes in operating assets and liabilities:
Accounts receivable
Prepaid expenses and other current assets
Other assets
Accounts payable
Accrued liabilities
Accrued interest
Other

Net cash used in operating activities

Cash flows from investing activities:
Proceeds from sale of short term investments
Use of restricted cash and investments
Proceeds from sale of marketable securities
Purchases of property, plant and equipment

Net cash used in investing activities

Cash flows from financing activities:
Proceeds from exercise of stock options and warrants, net
Capital contribution in minority-owned subsidiary
Repayments of mortgage payable and capital lease obligations

Net cash (used in) provided by financing activities
Effects of exchange rate changes on cash and cash equivalents

Net decrease in cash and cash equivalents
Cash and cash equivalents, beginning of period

Cash and cash equivalents, end of period

Supplemental disclosure of cash flow information:
Cash paid for interest
Cash paid for income taxes
Non-cash financing activities:
Equipment acquired under capital lease obligations
Capital expenditures included in accounts payable, accrued liabilities and other long term liabilities
Cumulative dividends and accretion on preferred stock

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

GLOBIX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All Dollars in Thousands, Except Share and Per Share Data)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited interim consolidated financial statements furnished herein include all adjustments necessary for a fair presentation of the Company's financial position at March 31, 2002 and the results of its operations for the three-month and six-month periods ended March 31, 2002 and 2001 and its cash flows for the six- month period ended March 31, 2002 and 2001. All such adjustments are of a normal recurring nature. Interim financial statements are prepared on a basis consistent with the Company's annual financial statements. Results of operations for the three-month and six-month periods ending March 31, 2002 are not necessarily indicative of the operating results that may be expected for future periods.

The consolidated balance sheet as of September 30, 2001 has been derived from the audited consolidated financial statements at that date but does not include all of the information and notes required by generally accepted accounting principles for complete financial statements.

For further information and factors to consider, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001 on file with the Securities and Exchange Commission.

2. Financial Restructuring Plan and Reorganization

On March 1, 2002, the Company and two of its wholly owned domestic subsidiaries filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code, together with a prepackaged plan of reorganization ("the Plan"), with the United States Bankruptcy Court for the District of Delaware. The Company continued to operate in Chapter 11 in the ordinary course of business. The Company received from the Bankruptcy Court authority to pay its employees, trade, and certain other creditors in full and on time, regardless of whether such claims arose prior to or after the Chapter 11 filing. The financial reporting of the Company following the filing of the Chapter 11 petitions is governed by the American Institute of Certified Public Accountants Statement of Position No. 90-7 "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" ("SOP 90-7"). SOP 90-7 provides guidance for companies that have filed petitions with the Bankruptcy Court and expect to reorganize under Chapter 11 of the Bankruptcy Code. The Company implemented the guidance of SOP 90-7 upon the initial filing on March 1, 2002, pursuant to SOP 90-7.

On April 8, 2002, the United States Bankruptcy Court confirmed the joint pre-packaged Plan of Reorganization filed by the Company and certain subsidiaries and the Company emerged from Chapter 11 bankruptcy protection and all conditions necessary for the Plan to become effective were satisfied or waived effective April 25, 2002.

Under the Plan and as of the effective date all existing securities of the Company are deemed cancelled and: (a) each holder of Senior Notes is entitled to receive, in exchange for such Senior Notes, its pro rata share of (i) $120 million principal amount of new 11% Senior Secured Notes due 2008, and (ii) shares of new Common Stock representing approximately 85% of the initial shares of new Common Stock, subject to dilution by the exercise of management incentive options representing up to 10% of the Company's issued and outstanding new Common Stock on a fully-diluted basis; (b) each holder of Preferred Stock, in exchange for such Preferred Stock (which, as stated above, is deemed cancelled as of the effective date), is entitled to receive, in exchange for such Preferred Stock, its pro rata share of shares of new Common Stock representing approximately 14% of the initial shares of new Common Stock, subject to dilution by the exercise of management incentive options; and (c) each holder of an old Common Stock equity interest (which, as stated above, is deemed cancelled as of the effective date) is entitled to receive, in exchange for such old Common Stock equity interest, its pro rata share of shares of new Common Stock representing approximately 1% of the initial shares of new Common Stock, subject to dilution by the exercise of management incentive options.

Although the Plan has become effective, distributions of Senior Secured Notes and new Common Stock to holders of existing common stock and notes under the Plan have not yet been made. Such distributions will be made as soon as practicable after adequate distribution reserves are established to accommodate valid securities claims, if any. The Company believes that the securities claims are without merit and intends to object to the allowance of such claims. Under the Plan, any recovery for such security holder claims must be satisfied from the new Senior Secured Notes and shares of new Common Stock available for

distribution to existing Senior Note holders and common stockholders. The Company expects to petition the Bankruptcy Court to establish a minimum reserve of the Senior Secured Notes and new Common Stock for such securities claims in order to allow for the prompt distribution of the remaining Senior Notes and new Common Stock to holders of existing common stock and notes under the Plan.

The reorganization reduced significantly the principal amount of the Company's outstanding indebtedness by reducing outstanding indebtedness by approximately $480 million and converting a substantial portion of the Company's indebtedness into new Common Stock. Moreover, the new debt issued under the Plan permits Globix to satisfy interest payments in kind for at least two years and, at the discretion of the Company's board of directors, up to four years, thereby significantly reducing liquidity concerns arising from pre-Chapter 11 bankruptcy debt service obligations. The Company believes that the restructuring substantially reduces uncertainty with respect to its future and better positions it to attract and maintain new customers. There can be no assurance that the Company will be successful in executing its business plan and there is substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Upon the consummation of the Chapter 11 filing and emergence from bankruptcy in April 2002, the Company will record a gain on the exchange of the Senior Notes and preferred stock for the Senior Secured Notes and new common stock. Such gain includes the extinguishment of the Senior Notes and the cancellation of associated accrued interest and will be offset by the write-off of previously deferred costs associated with the Senior Notes and reorganization related expenses.

The following table sets forth the unaudited proforma consolidated balance sheet of Globix as of March 31, 2002 upon exchange of the Senior Notes and Preferred Stock for the Senior Secured Note and new common equity under the Plan. The assigned equity values are based upon the reorganized value of the ongoing business and include significant estimates made by management based on facts and circumstances currently available. Valuation methodologies require the input of highly subjective assumptions. Actual future results and events could differ substantially from current estimates and assumptions. Any changes in valuation could affect the Company's balance sheet.

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GLOBIX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All Dollars in Thousands, Except Share and Per Share Data)

	Actual March 31, 2002	Debit	Credi
Assets			
Total current assets	$ 101,476	$ -	$ -
Property, plant and equipment, net	316,396	-	-
Debt issuance costs, net	24,436	-	23,581(
Other assets	8,167	-	-
Total assets	$ 450,475	$ -	$ 23,581
Liabilities and Stockholders' (Deficit) Equity			
Capital lease and other obligations	$ 6,299	$ -	$ -
Accounts payable	5,694	-	-
Accrued liabilities	44,053	2,713(d)	-
Accrued interest	43,750	43,750(b)	-
Total current liabilities	99,796	46,463	-
Capital lease obligations, net of current portion	7,085	-	-
Mortgage payable	20,309	-	-
Senior Notes	600,000	600,000(b)	-
Senior Secured Notes	-	-	120,000(
Other long term liabilities	3,062	-	-
Total Liabilities	730,252	646,463	120,000
Minority interest in subsidiary	4,435	-	-
Redeemable Convertible Preferred Stock	83,695	83,695(d)	-

Stockholders' (Deficit) Equity			
Common stock	419	-	-
Additional paid-in capital	167,929	-	173,664(
Deferred compensation	(5,056)	-	-
Accumulated other comprehensive income	(4,206)	-	-
Accumulated deficit	(526,993)	-	412,913(
Total Stockholders' (Deficit) Equity	(367,907)	83,695	586,577
Total Liabilities and Stockholders' (Deficit) Equity	$ 450,475	$ 730,158	$ 730,158

Explanation of the above adjustment columns are as follows:

a) To reflect the issuance of the 11% Senior Secured Notes.

b) To eliminate the 12.5% Senior Notes and associated accrued interest.

c) Write-off of deferred costs associated with the Senior Notes and restructuring related expenses.

d) To eliminate Preferred stock and the associated accrued dividends.

e) The extraordinary gain on extinguishment of debt and associated costs is calculated as follows:

Carrying value of Senior Notes 12.5%	$ 600,000
Carrying value of related accrued interest	43,750
Carrying value of Senior Secured Notes 11%	(120,000)
Equity value of reorganized Globix	(87,256)
Carrying value of related capitalized costs	(23,581)
Extraordinary gain on extinguishment of debt	$ 412,913

f) The equity value of the reorganized Globix is calculated as follows:

Enterprise value	$ 240,000
New Senior Secured Notes	(120,000)
Mortgage	(20,552)
Capitalized leases	(12,192)
Equity value of reorganized Globix	$ 87,256

GLOBIX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All Dollars in Thousands, Except Share and Per Share Data)

3. Property, Plant and Equipment

Property, plant and equipment consist of the following:

Land	
Building and building improvements	
Leasehold improvements	
Computer hardware and software and network equipment	
Furniture and equipment	
Less: Accumulated depreciation and amortization	
Add: Construction in progress	
Property, plant and equipment, net	

Certain computer and network equipment are recorded under capital leases that aggregated approximately $23.1 and $23.5 million as of March 31, 2002 and September 30, 2001, respectively. Accumulated amortization on the assets recorded under capital leases aggregated approximately $9.8 and $6.6 million as of March 31, 2002 and September 30, 2001, respectively.

Costs incurred prior to completion of construction of Internet data centers and network infrastructure upgrades are reflected as construction in progress in the accompanying consolidated balance sheets and are recorded as property, plant and equipment at the date each Internet data center or network segment becomes operational. Construction in progress includes direct expenditures for construction of the Internet data center facilities, related network equipment and network upgrade projects and is stated at cost. Capitalized costs include costs incurred under the construction contract, advisory and consulting fees incurred during the construction phase. Capitalized interest is included in property, plant and equipment under the provision of SFAS No. 34 and totals zero and $7.1 million for the periods ended March 31, 2002 and 2001, respectively. Included in the construction in progress at March 31, 2002 and September 30, 2001 are capital projects currently in progress related to the completion of the New York and London Internet data centers and certain equipment associated with these facilities, which has not been placed in service.

ATC Merger Corp. ("ATC Corp."), a wholly-owned subsidiary of the Company, owns the land and building located at 139 Centre Street, New York, New York. The nine-story building houses the Company's corporate headquarters and one of its Internet data center facilities. A former owner of the right to purchase the Centre Street property may be entitled to additional consideration if Globix sells the property. Such amount will be equal to the greater of (a) $1.0 million (subject to increase after June 1, 2018 by ten percent and an additional ten percent every fifth year thereafter), or (b) ten percent of the gross sales price of the property if such sales price is greater than $17.5 million.

In September 2000, the Company purchased the land and the eight-story building located at 415 Greenwich Street, New York, New York (the "Property"). The Property, which serves as the Company's second New York City Internet Data Center, is a certified historic structure eligible for historic tax credits ("Tax Credits") based on qualified expenditures, as defined in the Internal Revenue Code.

In June 2001, the Company entered into an agreement whereby the Tax Credits generated from the renovation of the Property will be utilized by a third party (the "Investor") via a Globix minority-owned subsidiary (the "LLC") in consideration for up to approximately $14 million capital contribution to the LLC. As of March 31, 2002, approximately $5.4 million of such capital contribution has been received by the LLC. The balance of the funding under the capital contribution is based upon the completion of future project related events, as defined in the LLC agreement. The Company has consolidated the financial statements of the LLC since inception, due to effective control of the LLC by Globix; resulting in a minority interest in subsidiary in the accompanying consolidated financial statements.

(All Dollars in Thousands, Except Share and Per Share Data)

4. Accrued Liabilities

Accrued liabilities consist of the following:

	March 31, 2002	September 30, 2001
Restructuring reserves	$22,471	$ 9,191
Deferred revenue	2,681	2,692
Accrued construction costs	--	6,490
Accrued dividends payable	2,713	--
Other	16,251	11,768
	$44,053	$30,141

During the quarter ended December 31, 2000 the Company modified its Internet data center expansion plan to delay, scale back and eliminate certain facilities. During November 2000, management's plan to terminate certain lease obligations, associated surplus power and environmental equipment related to the proposed expansion of Globix Internet data centers in Boston, MA; Seattle, WA; and Los Angeles, CA was completed and approved by the Board of Directors. When initiated, the restructuring plan was expected to take approximately one year to complete. The Company recorded a $38.1 million charge associated with this restructuring plan in the fiscal quarter ending December 31, 2000. Approximately $15.7 million of this charge was recorded as a write-off of construction in progress, which included capitalized interest, consulting and legal fees, construction and pre-construction related costs previously capitalized.

During the quarter ending September 30, 2001, the Company further modified its business plan to eliminate certain additional Internet data center and sales office facilities, resulting in the termination of certain employees, lease obligations and write-off of certain equipment, leasehold improvements and intangible assets and other costs. In connection with this modification, additional restructuring charges of $18.0 million were recorded, of which $10.0 million was a write-off of equipment, leasehold improvements and intangible assets and $1.2 million associated with employee terminations.

During the quarter ending March 31, 2002, the Company made an additional modification to its business plan, under the Plan of Reorganization, to reduce certain Internet data center lease obligations, close certain network access points and network aggregation points, resulting in the termination of certain employees, lease obligations and write-off of certain equipment, leasehold improvements and other costs. In connection with this modification, a restructuring charge of $48.4 million was recorded, of which $17.1 million was for the write-off of previously escrowed lease deposit and landlord inducement and legal payments, $28.4 million was a write-off of equipment and leasehold improvements and $2.9 million associated with employee terminations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All Dollars in Thousands, Except Share and Per Share Data)

As of March 31, 2002, restructuring charges totaling $82.1 million were charged against the established restructuring reserve, resulting in a remaining reserve balance of $22.4 million. The following table displays the activity and balances of the restructuring reserve account from inception to March 31, 2002:

Restructuring Charge Activity	Amount
Initial charge-- November 2000 (balance)	$ 38,109
Additions	0
Deductions	(27,667)
Balance, December 31, 2000	10,442
Additions	0
Deductions	(2,662)
Balance, March 31, 2001	7,780
Additions	0
Deductions	(1,610)
Balance, June 30, 2001	6,170
Additions	18,000
Deductions	(14,979)
Balance, September 30, 2001	9,191
Additions	0
Deductions	(1,647)
Balance, December 31, 2001	7,544
Additions	48,447
Deductions	(33,520)
Balance, March 31, 2002	$ 22,471

The above deductions to the restructuring reserve represent primarily cash payments and write-offs of previously capitalized costs.

5. Senior Notes

In January 2000, the Company agreed to sell $600.0 million 12.5% senior notes (the "Senior Notes") due 2010 in a private placement to a group of initial purchasers and in March 2000 completed a tender offer to purchase all of the outstanding 13% Senior Notes, $160.0 million in principal amount. The purchase price in the tender offer was 106.5% of the principal amount, plus accrued and unpaid interest. On February 8, 2000 the Company closed on its offering for the $600.0 million 12.5% Senior Notes due 2010, resulting in net proceeds of approximately $580.0 million, after underwriting fees and offering expenses.

The 12.5% Senior Notes were to mature on February 1, 2010. Interest on the 12.5% Senior Notes was payable semiannually on February 1 and August 1 of each year, commencing August 1, 2000. The 12.5% Senior Notes were unsecured obligations of the Company and ranked pari passu in right of payment with all existing and future unsecured and unsubordinated indebtedness and ranked senior in right of payment to any future subordinated indebtedness. In connection with the offering the Company incurred costs of approximately $20.0 million that was being amortized over ten years using the effective interest method.

On February 1, 2002 Globix did not make its scheduled interest payment on the Senior Notes in anticipation of commencing Chapter 11 cases under the U.S. Bankruptcy Code. The Company filed its voluntary prepackaged bankruptcy petition under Chapter 11 of the U.S. Bankruptcy Code on March 1, 2002 and in accordance with SOP 90-7, upon entering Chapter 11 of the U.S. Bankruptcy Code, accrued interest on the 12.5% Senior Notes was discontinued.

On April 8, 2002, the United States Bankruptcy Court confirmed the joint pre-packaged Plan of Reorganization filed by the Company and certain subsidiaries and the Company emerged from Chapter 11 bankruptcy protection and all conditions necessary for the Plan to become effective were satisfied or waived effective April 25, 2002.

Under the Plan and as of the effective date all existing securities of the Company are deemed cancelled and: (a) each holder of Senior Notes is entitled to receive, in exchange for such Senior Notes, its pro rata share of (i) $120 million principal amount of new 11% Senior Secured Notes due 2008, and (ii) shares of new Common Stock representing approximately 85% of the initial shares of new Common Stock, subject to dilution by the exercise of management incentive options representing up to 10% of the Company's issued and outstanding new Common Stock on a fully-diluted basis; (b) each holder of Preferred Stock, in exchange for such Preferred Stock (which, as stated above, is deemed cancelled as of the effective date), is entitled to receive, in exchange for such Preferred Stock, its pro rata share of shares of new Common Stock representing approximately 14% of the initial shares of new Common Stock, subject to dilution by the exercise of management incentive options; and (c) each holder of an old Common Stock equity interest (which, as stated above, is deemed cancelled as of the effective date) is entitled to receive, in exchange for such old Common Stock equity interest, its pro rata share of shares of new Common Stock representing approximately 1% of the initial shares of new Common

Stock, subject to dilution by the exercise of management incentive options.

The 11% Senior Secured Notes mature on May 1, 2008. Interest on the 11% Senior Secured Notes shall accrue and for the first two years after the closing date in kind by the issuance of additional 11% Senior Secured Notes in such principal amount as shall equal the interest payment that is then due. For the two year period thereafter, interest is payable in cash or, at the Company's option when authorized by the board of directors, in additional 11% Senior Secured Notes, or in any combination of cash and securities. For the remaining year interest is payable in arrears annually.

Although the Plan has become effective, distributions of Senior Secured Notes and new Common Stock to holders of existing common stock and notes under the Plan have not yet been made. Such distributions will be made as soon as practicable after adequate distribution reserves are established to accommodate valid securities claims, if any. The Company believes that the securities claims are without merit and intends to object to the allowance of such claims. Under the Plan, any recovery for such security holder claims must be satisfied from the new Senior Secured Notes and shares of new Common Stock available for distribution to existing Senior Note holders and common stockholders. The Company expects to petition the Bankruptcy Court to establish a minimum reserve of the Senior Secured Notes and new Common Stock for such securities claims in order to allow for the prompt distribution of the remaining Senior Notes and new Common Stock to holders of existing common stock and notes under the Plan.

6. Mortgage Payable

On January 25, 2000, ATC Corp. borrowed $21.0 million from a financial institution pursuant to a mortgage note secured by the property at 139 Centre Street, New York. Interest is payable at 9.16% (subject to adjustment on February 11, 2010) based on a 25 year amortization schedule. Principal and interest payments of $178.5 are payable monthly and any balance of the principal and all accrued and unpaid interest is due and payable in February 2025.

7. Redeemable Convertible Preferred Stock

The Company had designated 250,000 shares of its authorized 5,000,000 shares of Preferred Stock, $0.01 par value, as Series A 7.5% Convertible Preferred Stock. At March 31, 2002, there were 89,435 shares of Preferred Stock outstanding and 160,565 shares of Preferred Stock reserved for issuance.

On December 3, 1999, the Company issued $80.0 million (80,000 shares) in Preferred Stock to affiliates of Hicks, Muse, Tate & Furst Incorporated ("Hicks Muse") to expand the build-out of its Internet data centers and other facilities. The Preferred Stock was convertible into common stock at $10.00 per share at any time and could not be called for redemption by the Company for five years. Under the agreement, the Preferred Stock is subject to mandatory redemption in 2014 and yielded an annual dividend of 7.5% payable quarterly in cash or additional shares of Preferred Stock, at the option of the Company. The holders of the Preferred Stock had a liquidation preference of $1,000 per share and were entitled to cumulative dividends.

The Preferred Stock is recorded in the accompanying consolidated balance sheet outside the stockholders equity section due to its mandatory redemption feature. The Company incurred approximately $4.75 million of issuance costs in connection with the Preferred Stock transaction. Such costs have been recorded as a reduction of the carrying amount of the Preferred Stock and were being accreted through a charge to additional paid in capital over the five-year period to the earliest redemption date.

The Company did not declare or pay dividends for the three-month periods ended March 31, 2002 and December 31, 2001.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All Dollars in Thousands, Except Share and Per Share Data)

Cumulative dividends payable for such period totaling $2.7 million, have been accrued at March 31, 2002 and are included in accrued liabilities. On March 1, 2002, the Company and two of its wholly owned domestic subsidiaries filed Chapter 11 petitions in the United States Bankruptcy Court for the District of Delaware. In accordance with SOP 90-7, upon entering Chapter 11 of the U. S. Bankruptcy Code, the Preferred Stock dividend accrual was discontinued as of March 1, 2002.

On April 8, 2002, the United States Bankruptcy Court confirmed the joint pre-packaged Plan of Reorganization filed by the Company and certain subsidiaries and the Company emerged from Chapter 11 bankruptcy protection and all conditions necessary for the Plan to become effective were satisfied or waived effective April 25, 2002.

Under the Plan and as of the effective date all existing securities of the Company are deemed cancelled and: (a) each holder of Senior Notes is entitled to receive, in exchange for such Senior Notes, its pro rata share of (i) $120 million principal amount of new 11% Senior Secured Notes due 2008, and (ii) shares of new Common Stock representing approximately 85% of the initial shares of new Common Stock, subject to dilution by the exercise of management incentive options representing up to 10% of the Company's issued and outstanding new Common Stock on a fully-diluted basis; (b) each holder of Preferred Stock, in exchange for such Preferred Stock (which, as stated above, is deemed cancelled as of the effective date), is entitled to receive, in exchange for such Preferred Stock, its pro rata share of shares of new Common Stock representing approximately 14% of the initial shares of new Common Stock, subject to dilution by the exercise of management incentive options; and (c) each holder of an old Common Stock equity interest (which, as stated above, is deemed cancelled as of the effective date) is entitled to receive, in exchange for such old Common Stock equity interest, its pro rata share of shares of new Common Stock representing approximately 1% of the initial shares of new Common Stock, subject to dilution by the exercise of management incentive options.

Although the Plan has become effective, distributions of Senior Secured Notes and new Common Stock to holders of existing common stock and notes under the Plan have not yet been made. Such distributions will be made as soon as practicable after adequate distribution reserves are established to accommodate valid securities claims, if any. The Company believes that the securities claims are without merit and intends to object to the allowance of such claims. Under the Plan, any recovery for such security holder claims must be satisfied from the new Senior Secured Notes and shares of new Common Stock available for distribution to existing Senior Note holders and common stockholders. The Company expects to petition the Bankruptcy Court to establish a minimum reserve of the Senior Secured Notes and new Common Stock for such securities claims in order to allow for the prompt distribution of the remaining Senior Notes and new Common Stock to holders of existing common stock and notes under the Plan.

8. Stockholder's Equity

In December 2000, Globix granted approximately 3.1 million shares of restricted stock to certain employees and directors. The restricted stock awards vest 25% per year over a four-year period on the anniversary date of the grant. In connection with this restricted stock grant the Company recorded a deferred compensation charge of $8,999 in stockholders equity. This deferred compensation will be recorded as compensation expense over the four-year vesting period. Compensation expense recorded in the six-month period ended March 31, 2002 was $2,041, including $889 associated with officers terminated in connection with the restructuring charge discussed in Note 4. During the six-month period ended March 31, 2002, 1,072,123 of such restricted shares were vested. Since the initial restricted stock grant in December 2000, approximately 113,750 restricted shares have been canceled.

(All Dollars in Thousands, Except Share and Per Share Data)

Effective April 26, 2002, the new Board of Directors of the Company approved the vesting of 100% of the remaining unvested restricted preferred shares. This will result in a non-cash charge to compensation expense of $5.1 million in the month of April 2002.

9. Segment Information

The Company reports segment information under SFAS No. 131, which establishes standards for reporting information about operating segments in annual financial statements, and requires selected information about operating segments in interim financial reports issued to stockholders. It also establishes standards for disclosures about products and services and geographic areas. Operating segments are components of an enterprise for which separate financial information is available and which is evaluated regularly by the Company's chief operating decision-maker, or decision-making group, in deciding how to allocate resources and assess performance. The Company is a full service provider of sophisticated Internet solutions. The Company

operates several Internet data centers throughout the United States and the United Kingdom. Each Internet data center provides the same internet related services to similar type of customers. Effective April 1, 2001 and for the fiscal quarter ended June 30, 2001, Globix reports its results of operations in one operating segment under the provisions of SFAS No. 131. Previously the Company reported under two operating segments. The following table sets forth geographic segment information for the three month and six-month periods ended March 31, 2002 and 2001:

	Three-month period ended March 31,		Six-month per March 3
	2002	2001	2002
Revenue:			
United States	$ 15,499	$ 21,138	$ 33,050
Europe	5,890	5,644	11,717
Consolidated	$ 21,389	$ 26,782	$ 44,767

Operating income (loss):			
United States	$(27,476)	$(17,008)	$(46,042)
Europe	(46,115)	(2,949)	(50,593)
Consolidated	$(73,591)	$(19,957)	$(96,635)
Identifiable assets:			
United States	$361,684	$566,239	$361,684
Europe	64,355	75,038	64,355
Consolidated	$426,039	$641,277	$426,039

10. Loss Per Share

Basic loss per share is calculated by dividing net loss attributable to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted loss per share is calculated by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding, adjusted for potentially dilutive securities. Diluted loss per share has not been presented since the inclusion of outstanding convertible preferred stock, stock options and warrants would be antidilutive.

The following table summarizes the equivalent number of common shares assuming the related securities that were outstanding as of March 31, 2002 and 2001 had been converted, but not included in the calculation of diluted loss per share as such shares are antidilutive:

	March 31, 2002	March 31, 2001
Convertible preferred stock	8,617,300	8,303,000
Stock options	12,356,158	10,398,400
Unvested restricted stock	1,767,600	3,063,500
Warrants	194,800	194,800
	22,935,858	21,959,700

As a result of the Chapter 11 reorganization, effective April 25, 2002, all unexercised options and warrants were cancelled.

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GLOBIX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All Dollars in Thousands, Except Share and Per Share Data)

The following is a reconciliation of net loss attributable to common stockholders' for the three-month periods and six-months ended March 31, 2002 and 2001:

	Three-month period ended March 31, 2002	2001
Numerator:		
Loss before cumulative effect of a change in accounting principle	$ (86,269)	$ (31,966)
ividend and accretion on preferred stock	(1,329)	(1,761)
Net loss attributable to common stockholders' before cumulative effect of a change in accounting principle	(87,598)	(33,727)
Cumulative effect of a change in accounting principle	--	--
Net loss attributable to common stockholders'	$ (87,598)	$ (33,727)
Denominator:		
Weighted average shares outstanding--basic and diluted	39,688,862	38,709,658

11. Comprehensive Loss

The Company reports comprehensive loss under the provisions of SFAS No. 130. Accumulated other comprehensive loss is reported as a component of stockholders equity in the consolidated balance sheets. The Company primarily has two components of comprehensive loss: cumulative translation adjustments from the Company's operations in foreign countries and unrealized gains and losses on marketable securities classified as available for sale. The following table summarizes the components of other comprehensive loss for the three-month and six-month periods ended March 31, 2002 and 2001:

	Three-month period ended March 31, 2002	2001
Net loss	$(86,269)	$ (31,966)
Other comprehensive income (loss):		
Unrealized gain (loss) on marketable securities available for sale	226	(290)
Foreign currency translation adjustment	(1,576)	(3,268)
Comprehensive loss:	$ (87,619)	$ (35,524)

12. Recent Technical Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144 entitled "Accounting for the Impairment or Disposal of Long-Lived

Assets". This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 will be effective for financial statements of fiscal years beginning after December 15, 2001. Globix expects the adoption of SFAS No. 144 will not have a material impact on the Globix consolidated financial position results of operations or cash flows.

In June 2001, the FASB issued SFAS Nos. 141 and 142 entitled, "Business Combinations" and "Goodwill and Other Intangible Assets", respectively. SFAS No 141, among other things, eliminates the pooling of interests method of accounting for business acquisitions entered into after June 30, 2001. SFAS No. 142 requires companies to use a fair-value approach to determine whether there is an impairment of existing and future goodwill. SFAS No. 142 is effective beginning October 1, 2002. Globix expects the adoption of SFAS Nos. 141 and 142 will not have a material impact on Globix's consolidated financial position, results of operations or cash flows.

13. Contingencies

From time to time, the Company is a party to litigation arising in the normal course of its business operations. In the opinion of management and counsel, it is not anticipated that the settlement or resolution of any such matters will have a material adverse impact on the Company's financial condition, results of operations or cash flows.

In January 2002, Globix and Marc Bell (Non-Executive Chairman), Peter Herzig (Chief Executive Officer) and Brian Reach (former Chief Financial Officer) were named as defendants in purported class action lawsuits filed in the United States District Court for the Southern District of New York. The complaints have been consolidated into a single proceeding under the caption George Schirripa, et al., v. Globix Corporation, et al., No. 02 CV 0082. Since January 4, 2002, several additional substantially identical lawsuits, including a purported class action filed on behalf of purchasers of the Company's 12.5% Senior Notes, captioned Lance Brofman, et al. v. Globix Corp., et al., No. 02 CV 01063, have been filed in the same court, each naming the same group of defendants.

Additionally, on January 30, 2002, a derivative action was filed in the United States District Court for the Southern District of New York. The action is captioned Susan Bonney, Plaintiff vs. Marc Bell, Anthony St. John, Robert Bell, Martin Fox, Jack Furst, Michael Levitt, Sid Patterson, Harshad Shah, Richard Videbeck, Peter Herzig and Brian Reach, Defendants vs. Globix Corporation, Nominal Defendant. This action is substantially identical to the above-mentioned lawsuit.

Except for the Brofman complaint, which was brought on behalf of purchasers of the Company's 12.5% Senior Notes between November 16, 2000 and December 27, 2001, these complaints are all brought on behalf of purchasers of the Company's common stock between November 16, 2000 and December 27, 2001 and allege essentially identical violations of the Securities Exchange Act of 1934, as amended. The complaints have been brought as purported bondholder or stockholder class actions under Sections 10(b) and 20(a) and Rule 10b-5 of the

Securities Exchange Act. In general, the complaints allege that Globix and the individual defendants misrepresented Globix's financial condition and business prospects to inflate the value of the Company's 12.5% Senior Notes or common stock, as the case may be. The complaints seek unspecified monetary damages for the alleged inflated price of the Company's 12.5% Senior Notes or common stock, as the case may be, purchased by all class members, attorneys' fees and costs of litigation. On April 17, 2002 the complaints were consolidated into a single proceeding. The Company has not yet responded to any of these lawsuits, and no discovery has been conducted. The Company believes that the allegations in each of these actions are without merit and intends to defend against these actions vigorously. However, there can be no assurance that this litigation will not have a material adverse effect on the Company, its financial position, results of operations or cash flows.

14. Subsequent Events

On April 25, 2002, the Company emerged from Chapter 11 bankruptcy protection after the United States Bankruptcy Court confirmed the plan of reorganization, and all conditions necessary for the plan to become effective were satisfied or waived.

In April and May of 2002, the Company expects to settle certain long-term lease obligations with various vendors, which had a carrying value of approximately $6.8 million at March 31, 2002. These settlements will result in a gain on early extinguishment of debt of approximately $4.1 million. Such gain will be recorded in the Statement of Operations in the quarter ending June 30, 2002.

Effective with the emergence from bankruptcy on April 25, 2002, the Company negotiated a new 15 year lease for its second London Internet data center and significantly reduced the leased square footage and associated operating costs. This transaction resulted in the payment of certain escrow amounts and inducement payments, which were recorded as part of the restructuring charge recorded in the three-months ended March 31, 2002. These payments include $15.1 million of previously escrowed funds recorded as restricted cash in the accompanying March 31, 2002 Balance Sheet.

PART I

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Information

This Report on Form 10-Q contains certain forward-looking statements concerning, among other things, the Company's plans and objectives for future operations, planned products and services, potential expansion into new markets, and anticipated customer demand for our existing and future products and services. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements to encourage the inclusion of prospective information so long as those statements are accompanied by meaningful cautionary statements identifying factors that could cause actual results to differ materially. Among the factors that could cause actual results, performance or achievement to differ materially from those described or implied in the forward-looking statements are:

- ability to maintain and increase revenue by retaining existing customers and attracting new customers,

- ability to match the operating cost structure with revenue to achieve positive cash flow, including possible cost reductions, if necessary,
- ability to conduct business with critical vendors on acceptable terms,
- the sufficiency of existing cash and cash flow to complete our business plan and fund our working capital requirements,
- the insolvency of customers, vendors, and other parties critical to our business,
- Globix's large existing debt obligations and history of operating losses,
- the ability of Globix to integrate, operate and upgrade/downgrade our network,
- Globix's ability to recruit and retain sufficient and qualified personnel needed to staff our operations,
- the ability of Globix to raise additional capital, if necessary,
- ability to obtain and maintain relisting on the NASDAQ National Market or another primary market,
- potential marketplace or technology changes, rendering existing products and services obsolete, and
- changes in or the lack of anticipated changes in the regulatory environment, including potential legislation increasing our exposure to content distribution and intellectual property liability,

The following discussion and analysis should be read together with the consolidated financial statements and notes to the financial statements included in Part II Item 8 of the Company's Annual Report on Form 10-K. The following discussion contains forward-looking statements based on Globix's current expectations, assumptions, estimates and projections about Globix and its industry. Globix's results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks and uncertainties appearing in our other periodic reports and documents filed with the Securities and Exchange Commission. The results shown herein are not necessarily indicative of the results to be expected in any future periods.

Overview

We are a leading full-service provider of sophisticated Internet solutions to businesses. Our solutions include secure and fault-tolerant Internet data centers with premium network services providing connectivity to the Internet and complex Internet-based application services, which include dedicated hosting, streaming media and content delivery and messaging services. These elements of our total Internet solution combine to provide our customers with the ability to create operate and scale their increasingly complex Internet operations in a cost-efficient manner.

Globix, founded in 1989, undertook a major expansion plan in 1998 in order to more aggressively pursue opportunities resulting from the tremendous growth of the Internet. In April 1998, Globix completed a $160.0 million offering of 13% senior notes. In June and July 1999, Globix completed construction of its initial Internet data center facilities in New York City, London and Santa Clara, California and began operations at each facility.

In March 1999, Globix completed a public offering of 16,000,000 shares of its common stock, resulting in net proceeds to Globix of approximately $136.6 million.

In December 1999, Globix completed the private placement of 80,000 shares of Preferred Stock to affiliates of Hicks, Muse, Tate & Furst Incorporated, resulting in net proceeds of $75.3 million.

In February 2000, Globix completed a $600.0 million debt financing to fund (a) the continued expansion of its facilities and network and (b) the tender offer to purchase all of the outstanding 13% Senior Notes, $160.0 million principal amount. The purchase price of the tender, completed on February 8, 2000, was 106.5% of principal amount plus all accrued and unpaid interest.

On March 1, 2002, the Company and two of its wholly owned domestic subsidiaries filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code, together with a prepackaged plan of reorganization ("the Plan"), with the United States Bankruptcy Court for the District of Delaware. The Company continued to operate in Chapter 11 in the ordinary course of business. The Company received from the Bankruptcy Court authority to pay its employees, trade, and certain other creditors in full and on time, regardless of whether such claims arise prior to or after the Chapter 11 filing.

On April 8, 2002, the United States Bankruptcy Court confirmed the joint pre-packaged Plan of Reorganization filed by the Company and certain subsidiaries and the Company emerged from Chapter 11 bankruptcy protection and all conditions necessary for the Plan to become effective were satisfied or waived effective April 25, 2002.

For fiscal periods ended on or before March 31, 2001 Globix reported its results of operations in two operating segments: the "Internet Division" and the "Server Sales and Integration Division." The Internet Division provides, complex managed hosting, dedicated Internet access and application services, (such as, streaming media, network security and server administration and network monitoring). The Server Sales and Integration Division provides Internet-related hardware and software, systems and network integration. Revenue from the Internet Division has grown significantly as a percentage of total revenue, increasing from 6% in 1996 to 94% in the three-month period ended March 31, 2001. Effective April 1, 2001 and for the fiscal year ended September 30, 2001, Globix reports its results of operations in one operating segment under the provisions of SFAS No. 131.

The largest component of Globix's total revenue is complex hosting services and connectivity including both minimum committed amounts and overages. In addition to fees based on bandwidth usage, Globix charges certain customers monthly fees for the use of its physical facilities. Globix refers to this service as complex hosting. Globix's complex hosting contracts typically range from one to three years. The second largest component of Globix's total revenue is dedicated Internet access services to business customers. Globix's dedicated access customers typically sign one or two-year contracts that provide for fixed, monthly-recurring service fees and a one-time installation fee. Application services are charged on a monthly, fixed price or time and materials basis.

Cost of revenue consists primarily of telecommunications costs for Internet access and managed hosting customers. Telecommunications costs include the cost of providing local loop costs for connecting dedicated access customers to the Globix network, leased line and associated costs related to connecting with our peering partners, and costs associated with leased lines connecting our facilities to our backbone and aggregation points of presence.

Selling, general and administrative expenses consist primarily of salaries and occupancy costs for executive, financial, operational and administrative personnel and related operating expenses associated with network operations, customer service and field services as well as marketing expenses, professional fees and bad debt expense.

Globix depreciates its capital assets on a straight-line basis over the useful life of the assets, ranging from 3 to 40 years. Globix amortizes its identifiable intangible assets (primarily customer lists) on a straight-line basis over periods ranging up to 36 months. In addition, Globix amortizes debt issuance costs associated with its debt financings over the term of those obligations using the effective interest method.

Globix historically has experienced negative cash flow from operations and has incurred net losses. Globix's ability to generate positive cash flow from operations and achieve profitability is dependent upon Globix's ability to continue to grow its revenue base and achieve further operating efficiencies. For the six months ended March 31, 2002 and 2001, Globix generated negative cash flows from operations of approximately $ 35.0 million and $69.5 million, respectively, and incurred net losses of approximately $127.9million and $105.3 million, respectively. As of March 31, 2002, Globix had an accumulated deficit of approximately $527.0 million.

Three-Months Ended March 31, 2002 As Compared To The Three-Months Ended March 31, 2001

Revenue. Revenue for the three-month period ended March 31, 2002 decreased 20.1% to $21.4 million from $26.8 million for the three-month period ended March 31, 2001. This decrease was primarily attributable to the decrease in lower margin hardware sales and increased customer churn and the reluctance of new customers to contract with Globix during the bankruptcy proceeding.

Cost of Revenue. Cost of revenue for the three-month period ended March 31, 2002 was $9.7 million or 45.5% of total revenue as compared to $10.5 million or 39.1% of total revenue for the three-month period ended March 31, 2001. This decrease was primarily attributable to the revenue decline and revenue mix.

Selling, General and Administrative. Selling, general and administrative expenses for the three-month period ended March 31, 2002 were $21.4 million or 100.1% of revenue as compared to $28.3 million or 105.7% of revenue for the three-month period ended March 31, 2001. Approximately $6.5 million of the decrease was attributable to a decrease in salaries and benefits necessitated by the decrease in demand of Internet products and services. The number of employees decreased from approximately 860 as of March 31, 2001 to approximately 380 as of March 31, 2002. In addition, approximately $0.8 million of the decrease was related to the decrease in marketing spending and $1.0 million to the decrease in professional fees. The decrease was offset by an increase of approximately $1.3 million of rent expense, which was attributable to the opening of a new Internet data center during June 2001.

Restructuring Expenses. This charge of approximately $48.4 million recorded in the three-month period ended March 31, 2002 is attributable to lease termination and other equipment related expenses associated with the execution of the Company's Plan of Reorganization, whereby it took an estimated charge associated with the reduction of certain lease obligations and write-off of leasehold improvements and equipment related to certain Internet data center lease obligations, closing certain network access points and network aggregation points.

Impairment of Intangible Assets. The charge of approximately $3.2 million recorded in the three-months ended March 31, 2002 is attributable to the write down of intangible assets considered to be impaired as a result of the deterioration of business conditions in certain markets.

Depreciation and Amortization. Depreciation and amortization increased to $12.2 million for the three-month period ended March 31, 2002 as compared to $8.0 million for the three-month period ended March 31, 2002. The increase was primarily related to the increase in construction costs and equipment purchases related to the construction and renovation of Internet data centers network infrastructure enhancements, which are now largely placed in service.

Interest and Financing Expense and Interest Income. Interest and financing expense decreased to $14.0 million for the three-month period ended March 31, 2002 as compared to $16.1 million for the three-month period ended March 31, 2001. $6.3 million of the decrease was attributed to the discontinuance of the Senior Note interest accrual for the period March 1 to March 31 due to our bankruptcy filing on March 1, 2002. This decrease was offset by the interest capitalized for the three-month period ending March 31, 2001 for the continuing construction of the data centers. The decrease in interest income to $0.9 million for the three-month period ended March 31, 2002 reflects the reduced cash and the impact of the declining interest rates as compared to the same period in the prior year.

Minority Interest in Subsidiary. Minority interest credit results from the consolidation of a minority owned subsidiary consolidated with our results due to effective control of this entity by Globix.

Net Loss and Net Loss Attributable To Common Stockholders. As a result of the above, Globix reported a net loss of $86.3 million and a net loss attributable to common stockholders of $87.6 million for the three-month period ended March 31, 2002 or $2.18 per share as compared to a net loss of $32.0 million and a net loss attributable to common stockholders of $33.7 million or $0.87 per share for the three-month period ended March 31, 2001.

Six-Months Ended March 31, 2002 As Compared To The Six-Months Ended March 31, 2001

Revenue. Total revenue for the six-month period ended March 31, 2002 decreased 15.6% to $44.8 million from $53.0 for the six-month period ended March 31, 2001. This decrease was primarily attributable to the decrease in lower margin hardware sales and to the increase in customer churn and the reluctance of new customers to contract with Globix during the bankruptcy proceeding.

Cost of Revenue. Cost of revenue for the six-month period ended March 31, 2002 was $19.4 million or 43.3% of total revenue as compared to $20.9 million or 39.5% of total revenue for the six-month period ended March 31, 2001. The decrease in cost of revenue was primarily attributable to a decrease in revenue.

Selling, General and Administrative. Selling, general and administrative expenses for the six-month period ended March 31, 2002 were $46.2 million or 103.1% of total revenue as compared to $59.1 million or 111.5% of total revenue for the six-month period ended March 31, 2001. Approximately $9.6 million or

74.4% of the decrease was attributable to a decrease in salaries and benefits due to the decrease in the number of employees from approximately 860 as of March 31, 2001 to approximately 380 as of March 31, 2002. Approximately $4.7 million of the decrease is due to a decrease in marketing and professional expenses. Bad debt expense also decreased by $1.0 million. Also related to the decrease in employees, travel and entertainment expense decreased by $1.0 million. These decreases were offset by an increase of $3.3 million of rent expense and $0.9 million of technology license expense.

Restructuring Expenses. This charge of approximately $48.4 million recorded in the six-month period ended March 31, 2002 is attributable to lease termination and other equipment related expenses associated with the execution of the Company's Plan of Reorganization, whereby it took an estimated charge associated with the reduction of certain lease obligations and write-off of leasehold improvements and equipment related to certain Internet data center lease obligations, closing certain network access points and network aggregation points.

The charge of approximately $38.1 million recorded in the six-month period ended March 31, 2001 is attributable to the restructuring associated with the execution of our revised business plan, whereby we plan to construct fewer Internet data centers and have taken an estimated charge associated with the termination of certain leases and reduction of certain commitments for surplus power and environmental equipment related to the Internet data center expansion. This charge includes estimated lease termination costs in addition to a write-off of construction in progress associated with equipment, capitalized interest, consulting and legal fees, construction and pre-construction related costs previously capitalized.

Depreciation and Amortization Depreciation and amortization increased to $24.2 million for the six-month period ended March 31, 2002 as compared to $15.5 million for the six-month period ended March 31, 2001. The increase was primarily related to the increase in construction costs and equipment purchases related to the network infrastructure enhancements of the Internet data centers in New York, London and Santa Clara.

Interest and Financing Expense and Interest Income Interest and financing expense increased to $34.1 million for the six-month period ended March 31, 2002 as compared to $32.6 million for the six-month period ended March 31, 2001. The increase is due to capitalized interest on the build-out of the U.S. and U.K. internet data centers through March 31, 2001. The decrease in interest income to $1.8 million for the six-month period ended March 31, 2002 reflects the reduced cash position derived from the net proceeds of the February 2000 debt financing and the December 1999 issuance of the Series A Convertible Preferred Stock and the impact of declining interest rates compared to the same six-month period in the prior year.

Net Loss and Net Loss Attributable to Common Stockholders As a result of the above, Globix reported a net loss of 127.9 million and net loss attributable to common stockholders of $131.1 million for the six-month period ended March 31, 2002 or $3.33 per share as compared to a net loss of $105.3 million and a net loss attributable to common stockholders of $108.7 million or $2.86 per share for the six-month period ended March 31, 2001.

Liquidity and Capital Resources

On March 1, 2002, the Company and two of its wholly owned domestic subsidiaries filed voluntary Chapter 11 petitions of the U.S. Bankruptcy Code, together with a prepackaged plan of reorganization ("the Plan") with the United States Bankruptcy Court for the District of Delaware. The Company continued to operate in Chapter 11 in the ordinary course of business. The Company received authority from the Bankruptcy Court to pay its employees, trade, and certain other creditors in full and on time, regardless of whether such claims arise prior to or after the Chapter 11 filing. The financial reporting of the Company following the filing of the Chapter 11 petitions is governed by the American Institute of Certified Public Accountants Statement of Position No. 90-7 "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" ("SOP 90-7"). SOP 90-7 provides guidance for companies that have filed petitions with the Bankruptcy Court and expect to reorganize under Chapter 11 of the Bankruptcy Code. The Company implemented the guidance of SOP 90-7 upon the initial filing on March 1, 2002.

On April 8, 2002, the United States Bankruptcy Court confirmed the joint pre-packaged Plan of Reorganization filed by the Company and certain subsidiaries and the Company emerged from Chapter 11 bankruptcy protection and all conditions necessary for the Plan to become effective were satisfied or waived effective April 25, 2002.

Under the Plan and as of the effective date all existing securities of the Company are deemed cancelled and: (a) each holder of Senior Notes is entitled to receive, in exchange for such Senior Notes, its pro rata share of (i) $120 million principal amount of new 11% Senior Secured Notes due 2008, and (ii) shares of new Common Stock representing approximately 85% of the initial shares of new Common Stock, subject to dilution by the exercise of management incentive options representing up to 10% of the Company's issued and outstanding new Common Stock on a fully-diluted basis; (b) each holder of Preferred Stock, in exchange for such Preferred Stock (which, as stated above, is deemed cancelled as of the effective date), is entitled to receive, in exchange for such Preferred Stock, its pro rata share of shares of new Common Stock representing approximately 14% of the initial shares of new Common Stock, subject to dilution by the exercise of management incentive options; and (c) each holder of an old Common Stock equity interest (which, as stated above, is deemed cancelled as of the effective date) is entitled to receive, in exchange for such old Common Stock equity interest, its pro rata share of shares of new Common Stock representing approximately 1% of the initial shares of new Common Stock, subject to dilution by the exercise of management incentive options.

The reorganization reduced significantly the principal amount of the Company's outstanding indebtedness by reducing outstanding indebtedness by approximately $480 million and converting a substantial portion of the Company's indebtedness into new Common Stock. Moreover, the new debt issued under the Plan permits Globix to satisfy interest payments in kind for at least two years and, at the discretion of the Company's board of directors, up to four years, thereby significantly reducing liquidity concerns arising from pre-Chapter 11 bankruptcy debt service obligations. The Company believes that the restructuring substantially reduces uncertainty with respect to its future and better positions it to attract and maintain new customers. There can be no assurance that the Company will be successful in executing its new business plan and there is substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Cash flows used in operating activities were $35.0 and $69.5 million for the six-months ended March 31, 2002 and 2001, respectively. Cash flows from operating activities can vary significantly from period to period depending upon the timing of operating cash receipts and payments, especially accounts receivable, prepaid expenses and other assets and accounts payable and accrued liabilities. In both periods, our net loss was the primary component of cash used in operating activities, offset by non-cash interest charges as well as depreciation and amortization expenses, provisions for uncollectible accounts receivable and non-cash restructuring charges and, in 2001, a cumulative effects of a change in accounting principle and an impairment on investments.

Cash flows used in investing activities were $12.9 and $75.3 million for the six-months ended March 31, 2002 and 2001, respectively. Investments in capital expenditures related to our network and facilities were $ 18.7 million and $104.8 million for the six-months ended March 31, 2002 and 2001, respectively. $20.1 and $91.3 million for the six-months ended March 31, 2001 and 2000, respectively was expended in cash and the balance was financed under financing arrangements or remained in accounts payable, accrued liabilities and other long term liabilities at each period-end.

Cash flows used in (provided by) financing activities were $4.2 and $ (0.4) million for the six-months ended March 31, 2002 and 2001, respectively. In 2002 and 2001, Globix repaid certain mortgage and capital lease obligations. In 2002, offset by a capital contribution from a minority interest subsidiary and in 2001 offset by proceeds from the exercise of stock options and warrants.

As of March 31, 2002, we had $86.2 million of cash, cash equivalents, restricted cash, restricted investments and marketable securities, including $59.4 million of cash without restrictions as to use.

Globix has also issued collateralized letters of credit aggregating approximately $ 2.6 million. The related collateral funds are included in restricted cash and investments on the consolidated balance sheet at March 31, 2002.

In addition, certain computer and network equipment has been financed through vendors and financial institutions under capital and operating lease arrangements. Capital lease obligations total approximately $12.2 million at March 31, 2002. In April and May 2002, the Company expects to make cash payments of approximately $2.8 million, in settlement of approximately $6.8 million of the above capital lease obligations. This will result in a gain from the early extinguishment of debt of approximately $4.0 million. As of March 31, 2002, Globix has various agreements to lease facilities and equipment and is obligated to make future minimum lease payments of approximately $72.2 million on operating leases expiring in various years through 2017. At March 31, 2002 there were no unused equipment financing arrangements with vendors or financial institutions.

Net cash used in operating activities decreased to $35.0 million from $69.5 million for the periods ended March 31, 2002 and 2001, respectively. Operating losses are expected to continue to decrease during the course of the fiscal 2002 versus the prior year due principally to reductions in headcount and other cost savings initiatives. Capital expenditures for the year ending September 30, 2002 are also expected to be significantly less than the prior fiscal years and quarters.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. 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

The Company recognizes revenue in accordance with SAB No. 101 "Revenue Recognition in Financial Statements" ("SAB No. 101"), as amended. SAB No. 101 expresses the view of the SEC Staff in applying generally accepted accounting principles to certain revenue recognition issues. Under the provisions of SAB No. 101 set up and installation revenue are deferred and recognized over the estimated term of the underlying service contracts and/or the customer relationship, which range from twelve to thirty six months.

Revenue consists primarily of managed hosting and dedicated Internet access fees, sales of systems administration and application services (such as streaming media, network security and administration and network monitoring).

Monthly service revenue related to managed hosting and Internet access is recognized over the period services are provided. Revenue derived from application services is recognized as the project progresses. Projects are generally completed within less than one year. Payments received in advance of providing services are deferred until the period such services are provided.

Cost of Revenue

Cost of revenue consists primarily of telecommunications costs for Internet access and managed hosting customers. Telecommunications costs include the cost of providing local loop costs for connecting dedicated access customers to the Globix network, leased line and associated costs related to connecting with our peering partners, and costs associated with leased lines connecting our facilities to our backbone and aggregation points of presence.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, restricted cash and investments, marketable securities and accounts receivable. The Company maintains cash and cash equivalents, short-term investments, and restricted cash and investments with various major financial institutions, which invest primarily in U.S. Government instruments, high quality corporate obligations, certificates of deposit and commercial paper.

The Company believes that concentrations of credit risk with respect to trade accounts receivable are limited due to the large number and geographic dispersion of customers comprising the Company's customer base. The Company performs ongoing credit evaluations of its customers and maintains reserves for potential losses. Management makes estimates of the uncollectibility of our trade accounts receivable on a monthly basis.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, subject to adjustment for impairment, less accumulated depreciation or amortization computed on the straight-line method. Buildings and building improvements are depreciated over their estimated useful life of up to forty years. Computer hardware and software, network equipment and furniture and equipment are depreciated over their estimated useful lives, ranging from three to seven years. Leasehold improvements are amortized over the term of the lease or life of the asset, whichever is shorter.

Long-Lived Assets

The Company reviews the carrying amount of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Measurement of any impairment would include a comparison of estimated future operating cash flows anticipated

to be generated during the remaining life of the asset to the net carrying value of the asset.

Income Taxes

Deferred income taxes are provided for differences between financial statement and income tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The Company provides a valuation allowance on net deferred tax assets when it is more likely than not that such assets will not be realized.

Recent Technical Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144 entitled "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 will be effective for financial statements of fiscal years beginning after December 15, 2001. Globix expects the adoption of SFAS No. 144 will not have a material impact on the Globix consolidated financial position results of operations or cash flows.

In June 2001, the FASB issued SFAS Nos. 141 and 142 entitled, "Business Combinations" and "Goodwill and Other Intangible Assets", respectively. SFAS No 141, among other things, eliminates the pooling of interests method of accounting for business acquisitions entered into after June 30, 2001. SFAS No. 142 requires companies to use a fair-value approach to determine whether there is an impairment of existing and future goodwill. SFAS No. 142 is effective beginning October 1, 2002. Globix expects the adoption of SFAS Nos. 141 and 142 will not have a material impact on Globix's consolidated financial position, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

At March 31, 2002, we had financial instruments consisting of fixed rate debt, mortgage payable marketable securities, short-term investments and other investments. The substantial majority of our debt obligations consist of the Senior Notes, which bear interest at 12.5% and mature May 1, 2010. On April 25, 2002, the Company emerged from Chapter 11 bankruptcy protection after the United States Bankruptcy Court confirmed the plan of reorganization. The Plan provides that all existing securities of the Company will be cancelled and each holder of Senior Notes will receive, in exchange for such Senior Notes (which, as stated above, will be cancelled upon consummation of the restructuring), its pro rata share of (i) $120 million principal amount of new 11% Senior Secured Notes due 2008, and (ii) shares of new Common Stock representing approximately 85% of the initial shares of new Common Stock, subject to dilution by the exercise of management incentive options representing up to 10% of the Company's issued and outstanding new Common Stock on a fully-diluted basis. The mortgage interest is payable at 9.16% (subject to adjustment on February 11, 2010) based on a 25 year amortization schedule. Principal and interest payments of $178.5 are payable monthly and any balance of the principal and all accrued and unpaid interest is due and payable in February 2025.

In April and May of 2002, the Company expects to settle certain long-term capital lease obligations, which had a carrying value of approximately $6.8 million at March 31, 2002. After such settlements, annual maturities for our capital lease obligations (including interest) in each of the next twelve-months are as follows: $2.9 million in 2003, $2.4 million in 2004, $0.5 million in 2005, $0.3 million in 2006 and thereafter.

Marketable securities include Globix's strategic investment in Edgar On-Line and Globecomm Systems Inc., publicly traded entities, which are recorded at fair market value. Globix does not hedge its exposure to fluctuations in the value of its equity securities.

Our other investments are generally fixed rate investment grade and government securities denominated in U.S. dollars. At March 31, 2002, all of our investments are due to mature within twelve months and the carrying value of such investments approximates fair value. At March 31, 2002, $26.8 million of our cash and investments were restricted in accordance with the terms of certain collateral obligations. In April 2002, $17.8 million of such restricted cash has been paid to settle such collateral obligations.

We actively monitor the capital and investing markets in analyzing our investing decisions.

Globix is also subject to market risk associated with foreign currency exchange rates. Globix's business plan includes the expansion of the U.K. operation. To date, Globix has not utilized financial instruments to minimize its exposure to foreign currency fluctuations. Globix will continue to analyze risk management strategies to minimize foreign currency exchange risk in the future. Globix believes it has 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 a 100 basis point increase or decrease in interest rates due mainly to the short-term nature of the major portion 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.

PART II

Item 1. Legal Proceedings

(a) On March 1, 2002, the Company and two of its subsidiaries, filed petitions for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court").

Prior to the filing of the bankruptcy petitions, on January 14, 2002, the Company commenced solicitation of acceptances of the joint prepackaged plan of reorganization (the "Plan") from the holders of Senior Notes and Preferred Stock as of December 28, 2001. The voting period for the solicitation ended on February 13, 2002. The result of the solicitation was the acceptance of the Plan by the holders of Senior Notes with respect to both numerosity and amount and Preferred Stock with respect to amount, in each case as required for class acceptance of the Plan under the Bankruptcy Code, as follows:

	FOR AMOUNT/ NUMBER	% OF VOTED	AGAINST AMOUNT/ NUMBER
Principal Amount of Senior Notes	$ 483,487	97.5 %	$ 12,530
Number of Senior Notes	151	96.8 %	5
Principal Amount of Preferred Stock	$ 86,172	100 %	$ 0

The Company did not solicit votes from holders of old Common Stock equity interests. In the Chapter 11 proceeding, the Bankruptcy Court waived any solicitation requirement with respect to such holders, and deemed such holders to have rejected the Plan.

On April 8, 2002, the Bankruptcy Court entered an order confirming the Plan.

On April 25, 2002, all conditions necessary for the Plan to become effective were satisfied or waived and the Company emerged from Chapter 11 bankruptcy protection.

As a result of the effectiveness of the Plan, all of the Company's securities existing prior to the effectiveness have been cancelled and (a) each holder of Senior Notes will receive, in exchange for such Senior Notes, its pro rata share of (i) $120 million principal amount of new 11% Senior Secured Notes due 2008 and (ii) shares of new Common Stock representing approximately 85% of the initial shares of new Common Stock, subject to dilution by the exercise of management incentive options, (b) each holder of Preferred Stock, in exchange for such Preferred Stock, will receive, in exchange for such Preferred Stock, its pro rata share of shares of new Common Stock representing approximately 14% of the initial shares of new Common Stock, subject to dilution by the exercise of management incentive options; and (c) each holder of an old Common Stock equity interest will receive, in exchange for such old Common Stock equity interest, its pro rata share of shares of new Common Stock representing approximately 1% of the initial shares of new Common Stock, subject to dilution by the exercise of management incentive options. New Common Stock shall be issued in whole shares only, with any factional share amounts to be rounded up or down as provided in the Plan.

Although the Plan has become effective, distributions of Senior Secured Notes and new Common Stock to holders of existing common stock and notes under the Plan have not yet been made. Such distributions will be made as soon as practicable after adequate distribution reserves are established to accommodate valid securities claims, if any. The Company believes that the securities claims are without merit and intends to object to the allowance of such claims. Under the Plan, any recovery for such security holder claims must be satisfied from the new Senior Secured Notes and shares of new Common Stock available for distribution to existing Senior Note holders and common stockholders. The Company expects to petition the Bankruptcy Court to establish a minimum reserve of the Senior Secured Notes and new Common Stock for such securities claims in order to allow for the prompt distribution of the remaining Senior Notes and new Common Stock to holders of existing common stock and notes under the Plan.

(b) As previously reported in the Company's Quarterly Report on Form 10-Q filed on February14, 2002, on January 4, 2002, the Company and certain officers of the Company were named as defendants in a purported class action lawsuit filed in the United States District Court for the Southern District of New York. These complaints have been consolidated into a single proceeding under the caption George Schirripa, et al., v. Globix Corporation, et al., No. 02 CV 0082. After January 4, 2002, ten additional substantially identical lawsuits were filed in the same court, each naming the same group of defendants.

These lawsuits are all brought on behalf of purchasers of our securities between November 16, 2000 and December 27, 2001 and allege essentially identical violations of the Securities Exchange Act of 1934, as amended. On April 17, 2002, the lawsuits were consolidated into a single proceeding. We have not yet responded to the lawsuits, and no discovery has been conducted. We believe that the allegations in the lawsuits are without merit and we intend to defend against the lawsuits vigorously. However, we cannot give any assurance that this litigation will not have a material adverse effect on us, our financial condition or our results of operations.

Item 2. Changes in Securities and Use of Proceeds

See Item 1. Legal Proceedings.

Item 3. Defaults Upon Senior Securities

See Item 1. Legal Proceedings.

Item 4. Submission of Matters to a Vote of Security Holders

See Item 1. Legal Proceedings.

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
2.1	Amended Joint Prepackaged Plan of the Company and certain subsidiaries
3.1	Amended and Restated Certificate of Incorporation of the Company.
3.2	Amended and Restated By-laws of the Company.
4.1	Indenture, dated as of April 23, 2002, between the Company, as issuer, Subsidiary Guarantors of the Company, and HSBC Bank USA, as trustee, relating to the Company's 11% Senior Secured Notes due 2008.
4.2	Form of Pledge and General Security Agreement between each Subsidiary Guarantor of the Company and HSBC Bank USA, as collateral agent/trustee, dated

as of April 23, 2002.

4.3 Mortgage, Security Agreement and Fixture Filing, between 415 Greenwich LLC, as mortgagor and HSBC Bank USA, as collateral agent/trustee dated as of April 23, 2002.

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(1) Previously filed and incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on April 23, 2002.

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(b) Reports on Form 8-K

Dated Filed: January 14, 2002 Date of Event: January 14, 2002

Subject: Press release announcing that the Company had entered into lock-up agreements regarding the restructuring of the Company's equity and debt (the "Chapter 11 Prepackaged Reorganization Plan") with certain holders owning more than 51% of the Company's outstanding $600,000,000 issuance of 12-1/2% senior notes due 2010 (the "Senior Notes"), and holders of its Series A 7-1/2% Convertible Preferred Stock. The Company also announced that it commenced soliciting acceptances of its proposed Chapter 11 Prepackaged Reorganization Plan from the other holders of the Senor Notes.

Date Filed: February 1, 2002 Date of Event: February 1, 2002

Subject: The Company announced that it did not make its scheduled interest payment on its 12-1/2% senior notes due 2010 and that it did not intend to make the interest payment within the 30-day grace period thereafter.

Date Filed: March 4, 2002 Date of Event: March 1, 2002

Subject: Press release announcing that the Company and two of its subsidiaries filed Chapter 11 petitions in the United States Bankruptcy Court for the District of Delaware.

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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/ JOHN D. MCCARTHY

John D. McCarthy, Acting Chief Financial Officer

Date: May 14, 2002

By: /S/ SHAWN P. BROSNAN

Shawn P. Brosnan, Senior Vice
President, Corporate
Controller and Chief
Accounting Officer

Date: May 14, 2002