

GLOBIX CORP
Form 10-Q
May 10, 2006

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006

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

10013
(ZIP CODE)

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 **O**

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 **O** Accelerated filer **X** Non-accelerated filer **O**

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

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 **X** No **O**

Number of shares of the Registrant's common stock outstanding as of May 10, 2006 was 48,697,465.

GLOBIX CORPORATION AND SUBSIDIARIES**TABLE OF CONTENTS**

	<u>PAGE</u>
Part I Financial Information	
Item 1 <u>Consolidated Balance Sheets As of March 31, 2006 (unaudited) and September 30, 2005</u>	1
<u>Interim Consolidated Statements of Operations For the Three and Six Months Ended</u>	
<u>March 31, 2006 (unaudited) and for the Three and Six Months Ended March 31, 2005 (unaudited)</u>	2
<u>Statements of Changes in Stockholders' Equity and Comprehensive</u>	
<u>Loss for the Six Months Ended March 31, 2006 (unaudited)</u>	3
<u>Interim Consolidated Statements of Cash-Flows For the Six Months Ended March 31, 2006 (unaudited)</u>	
<u>and for the Six Months Ended March 31, 2005 (unaudited)</u>	4
<u>Notes to the Interim Unaudited Consolidated Financial Statements</u>	5
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	17
Item 4 <u>Controls and Procedures</u>	17
Part II Other Information	
Item 1. <u>Legal Proceedings</u>	18
Item 1A. <u>Risk Factors</u>	18
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	18
Item 3. <u>Defaults Upon Senior Securities</u>	18
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	18
Item 5. <u>Other Information</u>	18
Item 6. <u>Exhibits</u>	19
<u>Signatures</u>	20
Certifications	

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

	MARCH 31, 2006	SEPTEMBER 30, 2005
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,680	\$ 9,011
Short-term investments	76	65
Marketable securities		
Accounts receivable, net of allowance for doubtful accounts of \$1,868 and \$1,950, respectively	13,092	11,174
Prepaid expenses and other current assets	4,171	4,007
Restricted cash	2,681	2,559
Total current assets	28,700	26,816
Investments, restricted	9,790	9,810
Property, plant and equipment, net	207,267	206,230
Intangible assets, net of accumulated amortization of \$6,469 and \$5,598, respectively	9,386	10,257
Other assets	3,721	4,540
Total assets	\$ 258,864	\$ 257,653
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligation and mortgage payable	\$ 497	\$ 564
Accounts payable	13,602	11,769
Accrued liabilities	18,078	17,418
Current portion of deferred revenue	5,185	5,443
Total current liabilities	37,362	35,194
Capital lease obligations, net of current portion	131	204
Mortgage payable	18,829	19,270
11% Senior Notes	67,455	67,455
9% Senior Notes	5,000	
Accrued interest - 11% Senior Notes	6,918	3,110
Deferred revenue	15,119	15,903
Other long term liabilities	8,882	9,208
Total liabilities	159,696	150,344
Commitments and contingencies		
CUMULATIVE CONVERTIBLE PREFERRED STOCK	13,336	13,006
STOCKHOLDERS' EQUITY:		
Common stock, \$.01 par value; 500,000,000 shares authorized; 48,697,461 issued and outstanding, as of March 31, 2006 and September 30, 2005	487	487
Additional paid-in capital	209,438	207,314

Edgar Filing: GLOBIX CORP - Form 10-Q

	MARCH 31, 2006	SEPTEMBER 30, 2005
Accumulated other comprehensive income	4,882	5,197
Accumulated deficit	(128,975)	(118,695)
Total stockholders' equity	85,832	94,303
Total liabilities, cumulative convertible preferred stock and stockholders' equity	\$ 258,864	\$ 257,653

The accompanying notes are an integral part of these 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		FOR THE SIX MONTHS ENDED	
	MARCH 31, 2006	MARCH 31, 2005	MARCH 31, 2006	MARCH 31, 2005
Revenue, net	\$ 32,110	\$ 20,030	\$ 63,798	\$ 36,561
Operating costs and expenses:				
Cost of revenue (excluding depreciation and amortization shown below)	17,229	11,418	34,584	21,117
Selling, general and administrative	11,199	9,203	23,497	16,507
Depreciation and amortization	5,771	4,472	11,588	8,015
Total operating costs and expenses	34,199	25,093	69,669	45,639
Loss from operations	(2,089)	(5,063)	(5,871)	(9,078)
Interest and financing expense	(2,286)	(2,355)	(4,790)	(4,843)
Interest income	146	102	230	228
Other (expense) income, net	325	(785)	481	(673)
Gain (loss) on discharge of debt		(3,182)		(3,182)
Net loss	(3,904)	(11,283)	(9,950)	(17,548)
Dividends and accretion on preferred stock	166		330	
Net loss attributable to common stockholders	\$ (4,070)	\$ (11,283)	\$ (10,280)	\$ (17,548)
Basic and diluted loss per share	\$ (0.08)	\$ (0.45)	\$ (0.21)	\$ (.85)
Weighted average common shares outstanding basic and diluted	48,697,465	25,048,634	48,691,332	20,707,127

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

GLOBIX CORPORATION AND SUBSIDIARIES**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE (LOSS)**
(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	COMMON STOCK				ACCUMULATED OTHER COMPREHENSIVE INCOME		ACCUMULATED DEFICIT		TOTAL STOCKHOLDERS' EQUITY	
	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	DEFERRED COMPENSATION						
Balance, September 30, 2005	48,697,465	\$ 487	\$ 207,314	\$	\$ 5,197		\$ (118,695)		\$	94,303
Stock-based compensation			1,656							1,656
Amortization of warrants			96							96
Comprehensive Loss:										
Net loss							(6,046)			
Accretion on preferred stock							(164)			
Foreign currency translation adjustments						(567)				
Total Comprehensive Loss										(6,777)
Balance, December 31, 2005	48,697,465	487	209,066		4,630		(124,905)			89,278
Stock-based compensation			276							276
Amortization of warrants			96							96
Comprehensive Loss:										
Net loss							(3,904)			
Accretion on preferred stock							(166)			
Foreign currency translation adjustments						252				
Total Comprehensive Loss										(3,818)
Balance, March 31, 2006	48,697,465	\$ 487	\$ 209,438	\$	\$ 4,882		\$ (128,975)		\$	85,832

The accompanying notes are an integral part of these 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 SIX MONTHS ENDED	
	MARCH 31, 2006	MARCH 31, 2005
Cash Flows From Operating Activities		
Net Loss	\$ (9,950)	\$ (17,548)
Operating activities:		
Depreciation and amortization	11,588	8,015
Provision for uncollectible receivables	360	49
Loss (gain) on debt discharge		3,182
Stock-based compensation	1,932	
Expense in connection with issuance of warrants	192	
Loss on sale of marketable securities		913
Amortization of deferred compensation and issuance of common stock in litigation settlement		386
Loss on sale of equipment	42	
Changes in assets and liabilities (net of acquisition):		
Increase in accounts receivable	(2,321)	(2,184)
Decrease (increase) in prepaid expenses and other current assets	(185)	911
Decrease (increase) in other assets	820	(49)
Increase in accounts payable	1,862	2,345
Increase (decrease) in accrued liabilities	470	(1,249)
Increase in accrued interest	3,808	3,854
Other	(1,209)	(363)
Net Cash Provided by (Used in) Operating Activities	7,409	(1,738)
Cash Flows From Investing Activities		
Proceeds from (investments in) short-term and long-term investments	(11)	1,689
Proceeds from (used in) restricted cash and investments	(131)	(6)
Proceeds from sale of marketable securities		594
Proceeds from fiber optic exchange	1,960	
Net cash proceeds from Neon acquisition		2,726
Purchase of property, plant and equipment	(13,927)	(6,160)
Net Cash Used in Investing Activities	(12,109)	(1,157)
Cash Flows From Financing Activities		
Issuance of 9% Senior Notes	5,000	
Repayment of mortgage payable and capital lease obligation	(580)	(307)
Net Cash Provided by (Used in) Financing Activities	4,420	(307)
Effect of Exchange Rates Changes on Cash and Cash Equivalents	(51)	267
Decrease in Cash and Cash Equivalents	(331)	(2,935)
Cash and Cash Equivalents, Beginning of Period	9,011	12,075
Cash and Cash Equivalents, End Period	\$ 8,680	\$ 9,140

	FOR THE SIX MONTHS ENDED	
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 756	\$ 978
Non cash financing activities:		
Capital leases entered into	\$ 327	

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

Edgar Filing: GLOBIX CORP - Form 10-Q

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 six-month period ended March 31, 2006, the Company had a net loss attributable to common stockholders of \$10,280 and an accumulated deficit of \$128,975. 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. 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 March 31, 2006 and the six-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 six-month period ended March 31, 2006 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

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.

Edgar Filing: GLOBIX CORP - Form 10-Q

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

Edgar Filing: GLOBIX CORP - Form 10-Q

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 and six months ended March 31, 2005:

	For the Three Months Ended March 31, 2005	For the Six Months Ended March 31, 2005
Net loss, as reported attributable to common stockholders	\$ (11,283)	\$ (17,548)
Add: Stock-based employee compensation expense included		
In reported net loss	3	26
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(122)	(237)
Pro forma net loss attributable to common stockholders	\$ (11,402)	\$ (17,759)
Loss per share attributable to common stockholders		
Basic and diluted earnings per share as reported	\$ (0.45)	\$ (0.85)
Basic and diluted earnings per share pro forma	\$ (0.46)	\$ (0.86)

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 six months ended March 31, 2006 was \$1,932 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). Stock based compensation expense for the quarter ended March 31, 2006 was \$276.

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. In addition, during the three-month period ended March 31, 2006 the Company granted approximately 143,000 options to various employees with exercise prices of \$2.75.

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

Edgar Filing: GLOBIX CORP - Form 10-Q

GLOBIX CORPORATION AND SUBSIDIARIES

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

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.

In February 2006, the FASB issued SFAS No. 155, 'Accounting for Certain Hybrid Financial Instruments' an amendment of FASB Statements No. 133 and 140. SFAS No. 155 allows companies to elect to measure at fair value entire financial instruments containing embedded derivatives that would otherwise have to be accounted for separately. It also requires companies to identify interests in securitized financial assets that are freestanding derivatives or contain embedded derivatives that would have to be accounted for separately, clarifies which interest- and principal-only strips are subject to SFAS No. 133, and amends SFAS No. 140 to revise the conditions of a qualifying special purpose entity due to the new requirement to identify whether interests in securitized financial assets are freestanding derivatives or contain embedded derivatives. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event after the beginning of a company's first fiscal year that begins after September 15, 2006. The Company does not expect adoption of SFAS No. 155 to have a material effect on its results of operations or financial position.

In March 2006, the FASB issued SFAS No. 156, 'Accounting for Servicing of Financial Assets' an amendment of FASB Statement No. 140. SFAS No. 156 requires the recognition of a servicing asset or liability each time a company undertakes an obligation to service a financial asset in certain situations. It requires all separately recognized servicing assets and liabilities to be initially measured at fair value, if practical. SFAS No. 156 is effective as of the beginning of a company's first fiscal year that begins after September 15, 2006. The Company is currently evaluating the implementation of SFAS No. 156 and whether it will have a material impact on our financial position, results of operations or cash flows.

NOTE 3 ACQUISITION OF NEON COMMUNICATIONS, INC.

On March 7, 2005, Globix completed its acquisition of NEON 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 3,381 shares of stock options and warrants with a fair value of \$7,928 and approximately \$3,439 of other direct acquisition costs. NEON owns and operates a high bandwidth fiber optic network, extending from Portland, ME to Washington, DC. 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, including Boston, New York, Philadelphia, Newark, Baltimore, Washington, DC, Portland, Portsmouth, Springfield, Worcester, Albany, White Plains, Providence, Hartford, Hackensack, Reston, Virginia and smaller communities along our network routes. The final 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	1,228
Restricted cash and investments acquired	7,501
Fair value of property, plant and equipment acquired	117,292
Identifiable intangible assets acquired	4,500
Other assets acquired	3,625
Accounts payable and accrued liabilities assumed	(11,949)
Deferred revenue assumed	(17,363)
Other liabilities assumed	(2,064)
	<hr/>
	\$ 112,862
	<hr/>

Edgar Filing: GLOBIX CORP - Form 10-Q

GLOBIX CORPORATION AND SUBSIDIARIES

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

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	FOR THE SIX MONTHS ENDED
	MARCH 31, 2005	MARCH 31, 2005
Revenue	\$ 29,117	\$ 57,905
Net loss	(12,014)	(18,486)
Basic and diluted net income per common share Pro-forma	\$ (0.25)	\$ (0.38)
Weighted average common shares outstanding basic and diluted	48,602,172	48,590,186

NOTE 4 SEGMENT INFORMATION

Since 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.

Operating results and assets information by reportable segment:

FOR THE THREE MONTHS
ENDED

FOR THE SIX MONTHS ENDED

Edgar Filing: GLOBIX CORP - Form 10-Q

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	MARCH 31, 2006	MARCH 31, 2005	MARCH 31, 2006	MARCH 31, 2005
Revenues:				
Globix	\$ 15,945	\$ 16,807	\$ 32,319	\$ 33,338
NEON	16,165	3,223	31,479	3,223
Corporate	--	--	--	--
Consolidated	\$ 32,110	\$ 20,030	\$ 63,798	\$ 36,561
Operating loss:				
Globix	\$ (547)	\$ (1,760)	\$ (433)	\$ (3,520)
NEON	2,610	(202)	4,305	(202)
Corporate	(4,152)	(3,101)	(9,743)	(5,356)
Consolidated	\$ (2,089)	\$ (5,063)	\$ (5,871)	\$ (9,078)

	MARCH 31, 2006	MARCH 31, 2005
Total assets:		
Globix	\$ 112,101	\$ 127,329
NEON	146,763	141,716
Consolidated	\$ 258,864	\$ 269,045

	MARCH 31, 2006	MARCH 31, 2005
Fixed assets:		
Globix	\$ 81,945	\$ 90,052
NEON	125,322	118,150
Consolidated	\$ 207,267	\$ 208,202

Edgar Filing: GLOBIX CORP - Form 10-Q

GLOBIX CORPORATION AND SUBSIDIARIES

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Operating results and assets information by geographic area:

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	MARCH 31, 2006	MARCH 31, 2005	MARCH 31, 2006	MARCH 31, 2005
Revenues:				
United States	\$ 25,673	\$ 12,626	\$ 50,957	\$ 21,508
Substantially United Kingdom	6,437	7,404	12,841	15,053
Consolidated	\$ 32,110	\$ 20,030	\$ 63,798	\$ 36,561
Operating loss:				
United States	\$ (2,587)	\$ (5,926)	\$ (7,092)	\$ (10,790)
Substantially United Kingdom	498	863	1,221	1,712
Consolidated	\$ (2,089)	\$ (5,063)	\$ (5,871)	\$ (9,078)

	MARCH 31, 2006	MARCH 31, 2005
Total assets:		
United States	\$ 225,060	\$ 230,453
Substantially United Kingdom	33,804	38,592
Consolidated	\$ 258,864	\$ 269,045

Edgar Filing: GLOBIX CORP - Form 10-Q

	MARCH 31, 2006	MARCH 31, 2005
Fixed assets:		
United States	\$ 184,112	\$ 181,587
Substantially United Kingdom	23,155	26,615
Consolidated	\$ 207,267	\$ 208,202

Although the Company operates in two reportable segments, there are 6 major service lines as listed below with Co-location services being offered in both segments. The breakdown of revenues for each service line is as follows:

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	MARCH 31, 2006	MARCH 31, 2005	MARCH 31, 2006	MARCH 31, 2005
Internet Hosting and Co-Location	\$ 7,963	\$ 6,438	\$ 16,214	\$ 12,508
Managed Services	5,150	5,546	10,454	10,972
Network Services and Internet Access	3,097	4,036	6,060	8,014
Lit fiber services	14,547	2,777	28,221	2,777
Dark fiber services	1,174	343	2,327	343
Hardware and Software Sales and Other	179	890	522	1,947
Revenue, net	\$ 32,110	\$ 20,030	\$ 63,798	\$ 36,561

NOTE 5 COMPREHENSIVE LOSS

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	MARCH 31, 2006	MARCH 31, 2005	MARCH 31, 2006	MARCH 31, 2005
Net loss attributable to common stockholders	\$ (4,070)	\$ (11,283)	\$ (10,280)	\$ (17,548)
Other comprehensive income (loss):				
Unrealized gain (loss) on marketable securities available for sale	--	804	--	1,047
Foreign currency translation adjustment	252	(687)	(315)	1,191
Comprehensive loss	\$ (3,818)	\$ (11,166)	\$ (10,595)	\$ (15,310)

Edgar Filing: GLOBIX CORP - Form 10-Q

GLOBIX CORPORATION AND SUBSIDIARIES

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

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.

Globix has retained the investment banking firm of The Bank Street Group LLC to assist it in reviewing strategic and financing alternatives for the Company and its businesses. The Company is committed to pay The Bank Street Group LLC a set fee upon the successful completion of its contracted responsibilities.

On May 2, 2006 the Company entered into agreements for a 30 month equipment lease line with major leasing company for up to \$3 million and a second agreement for a 24 month equipment lease for up to \$1 million. As of the date of filing the company has not drawn down on either line.

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 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.

Edgar Filing: GLOBIX CORP - Form 10-Q

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 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 March 31, 2006, a dividend of \$0.7 million 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

10

GLOBIX CORPORATION AND SUBSIDIARIES

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

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 subsidiary 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

This Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to various risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results to differ materially from our expectations. Forward-looking statements are generally identified by the use of forward-looking words or phrases such as anticipates, intends, expects, believes, estimates, or words or phrases of similar import. Among the factors that could cause our results to differ from those anticipated are our high degree of leverage and history of operating losses, our ability to retain existing customers and attract new customers, our ability to achieve cost-savings and generate positive cash flow, risks associated with potential acquisitions and divestitures and other factors affecting our business generally. Such factors are more fully described herein and in our 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 our business, see Risk Factors in our 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 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:

Edgar Filing: GLOBIX CORP - Form 10-Q

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 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 operational strategy is to seek to grow profitably by selling a more profitable mix of business, continuing our investment in revenue supporting infrastructure and making targeted acquisitions, where feasible. Our transport business has experienced consistent revenue growth and profitability improvement over the past year 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 making 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 access to cash and 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 effective 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 U.S. generally accepted accounting principles. 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. We recognize revenue in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin (SAB), No. 104

Revenue Recognition which revises and rescinds certain sections of SAB No. 101, Revenue Recognition. The changes noted in SAB 104 did not have a material effect on Globix's consolidated financial statements.

The Globix business segment (Internet services) 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

Edgar Filing: GLOBIX CORP - Form 10-Q

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 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 (primarily fiber optic network services) 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 Globix's network, leased line and associated costs related to connecting with Globix's peering partners and costs associated with leased lines connecting Globix's 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 collocation 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.

13

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 U.S. generally accepted accounting principles 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, purchase price allocation, allowance for doubtful accounts, credit reserve, the useful lives and ultimate reliability 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 March 31, 2006 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 MARCH 31, 2006 COMPARED TO THE QUARTER ENDED MARCH 31, 2005

REVENUE, NET. Revenue for the quarter ended March 31, 2006 increased 60.3%, or approximately \$12.1 million, to \$32.1 million from \$20.0 million for the quarter ended March 31, 2005. Excluding the \$12.9 million impact to revenue from the NEON acquisition, revenue for the quarter ended March 31, 2006 decreased by 5.1% or approximately \$0.8 million compared to the quarter ended March 31, 2005.

Revenue breakdown for the major service lines are as follows. Revenue from Internet Hosting and Co-Location increased by \$1.5 million, or 23.7%, to \$8.0 million in the three months ended March 31, 2006 compared to \$6.4 million in the same period in fiscal quarter 2005. Revenue from Network Services and Internet Access decreased by \$0.9 million, or 23.3%, to \$3.1 million in the three months ended March 31, 2006 compared to \$4.0 million in the same period of quarter 2005. The total increase of \$0.6 million in these two major service lines are mainly due to negative churn. Negative churn is defined as contractual revenue increases as a percentage of total contractual revenue due to customer upgrades and additions of new services, net of customer cancellations and downgrades. Revenue from Hardware and Software Sales and Other decreased by \$0.7 million to \$0.2 million in the three month period ended March 31, 2006 compared to \$0.9 million in the same period in 2005, which resulted primarily from a decrease in Hardware sales. Revenue from Managed Services was \$5.2 million in the three month period ended March 31, 2006 compared to \$5.5 million in the same period in 2005. 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 \$14.5 million and \$1.2 million, respectively, compared to \$2.8 million and \$0.3 million for the three month period ended March 31, 2005. This increase is the result of a full quarter of operations in these service lines.

COST OF REVENUE. Cost of revenue for the quarter ended March 31, 2006 increased to \$17.2 million from \$11.4 million in the quarter ended March 31, 2005. Excluding the \$6.1 million impact of NEON, cost of revenues decreased by \$0.3 million primarily attributable to

Edgar Filing: GLOBIX CORP - Form 10-Q

a decrease in hardware sales in the quarter ended March 31, 2006 over March 31, 2005. 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 \$11.2 million for the quarter ended March 31, 2006 as compared to \$9.2 million for the quarter ended March 31, 2005, an increase of \$2.0 million or 21.7%. Excluding the \$2.5 million impact of NEON, selling, general and administrative expenses decreased by \$0.5 million. The decrease is primarily the result of a decrease in salaries and benefits of \$1.0 million for the quarter ended March 31, 2006. Partially offsetting this was an increase in professional fees of \$0.5 million. Included in selling, general and administrative expenses for the quarter ended March 31, 2006 was the recognition of \$0.3 million of non-cash expenses related to the recognition of stock-based compensation required under SFAS 123 (revised). 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 March 31, 2006 were \$5.8 million compared to \$4.5 million for the quarter ended March 31, 2005, or an increase of \$1.3 million. The increase is primarily the result of the acquisition of NEON, which accounted for \$1.9 million of the total increase, partially offset by a \$0.6 million decrease in the depreciation related to the continued utilization of assets that have become fully depreciated.

INTEREST AND FINANCING EXPENSES: Interest and financing expense for the quarter ended March 31, 2006 was \$2.3 million, compared to \$2.4 million for the quarter ended March 31, 2005.

INTEREST INCOME: Interest income for the quarter ended March 31, 2006 of \$0.1 million was flat compared to \$0.1 million for the quarter ended March 31, 2005.

OTHER INCOME/EXPENSE, NET: Other income for the quarter ended March 31, 2006 was \$0.3 million compared to other expense of \$0.8 million for the quarter ended March 31, 2005. The income in the quarter ended March 31, 2006 is primarily the result of the rental income from tenants at our 139 Centre Street building during the quarter.

NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS: As a result of the factors described above, we reported net loss attributable to common stockholders of \$4.1 million, or \$0.08 basic and diluted loss attributable to common stockholders per share for the three month period ended March 31, 2006, as compared to a net loss attributable to common stockholders of \$11.3 million, or \$0.45 basic and diluted loss attributable to common stockholders per share for the same period in 2005.

SIX MONTHS ENDED MARCH 31, 2006 COMPARED TO THE SIX MONTHS ENDED MARCH 31, 2005

REVENUE, NET: Revenue for the six-month period ended March 31, 2006 increased 74.5% or approximately \$27.2 million to \$63.8 million from \$36.6 million for the six-month period ended March 31, 2005. Excluding the \$28.3 million impact of the NEON acquisition, revenue for the six-month period ended March 31, 2006 decreased by 3.1% or approximately \$1.1 million compared to the six-month period ended March 31, 2005.

Revenue breakdown for the major service lines are as follows. Revenue from Internet Hosting and Co-Location increased by \$3.7 million, or 29.6%, to \$16.2 million in the six months ended March 31, 2006 compared to \$12.5 million in the same period of 2005. Revenue from Network Services and Internet Access decreased by \$1.9 million, or 24.4%, to \$6.1 million in the six months ended March 31, 2006 compared to \$8.0 million in the same period of 2005. The total increase of \$1.8 million in these two major service lines is mainly due to negative churn. Negative

Edgar Filing: GLOBIX CORP - Form 10-Q

churn is defined as contractual revenue increases as a percentage of total contractual revenue due to customer upgrades and additions of new services, net of cancellations and downgrades. Revenue from Hardware and Software Sales and Other decreased by \$1.4 million to \$0.5 million for the six months ended March 31, 2006 compared to \$1.9 million in the same period in 2005, which resulted primarily from a decrease in Hardware sales. Revenue from Managed Services was \$10.4 million in the six month period ended March 31, 2006 compared to \$11.0 million in the same period in 2005. 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 \$28.2 million and \$2.3 million, respectively, for the six months ended March 31, 2006 compared to \$2.8 million and \$0.3 million, respectively, for the same period in fiscal 2005. This increase is the result of a full period of operations in these service lines.

COST OF REVENUE: Cost of revenue for the six-months ended March 31, 2006 increased \$13.5 million, or 63.8%, to \$34.6 million from \$21.1 million in the six-months ended March 31, 2005. Excluding the \$14.1 million impact of the NEON acquisition, cost of revenue for the six-months ended March 31, 2006 decreased \$0.6 million, or 3.3%, to \$18.7 million from \$19.3 million for the six-months ended March 31, 2005. This was primarily attributable to our decrease in hardware sales and network services and internet access provided period over period. 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 increased \$7.0 million, or 42.3%, to \$23.5 million for the six-months ended March 31, 2006 from \$16.5 million for the six-months ended March 31, 2005. Excluding the \$6.1 million impact of NEON, selling, general and administrative expenses increased by \$0.9 million. The increase is primarily the result of an increase in professional fees. Included in selling, general and administrative expenses for the six-months ended March 31, 2006 was the recognition of \$1.9 million of non-cash expenses related to the recognition of stock-based compensation required under SFAS 123 (revised). 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 six-months ended March 31, 2006 were \$11.6 million compared to \$8.0 million for the quarter ended March 31, 2005, or an increase of \$3.6 million. The increase is primarily the result of the acquisition of NEON, which accounted for \$4.7 million of the total increase, partially offset by a \$0.6 million decrease in the depreciation related to the continued utilization of assets that have become fully depreciated.

INTEREST AND FINANCING EXPENSES: Interest and financing expense for the six months ended March 31, 2006 of \$4.8 million was flat compared to \$4.8 million for the six-months ended March 31, 2005.

INTEREST INCOME: Interest income for the quarter ended March 31, 2006 of \$0.2 million was flat compared to \$0.2 million for the quarter ended March 31, 2005.

OTHER INCOME/EXPENSE, NET: Other income for the six-months ended March 31, 2006 was \$0.5 million compared to other expense of \$0.7 million for the six-months ended March 31, 2005. The income in the six-months ended March 31, 2006 is primarily the result of the rental income from tenants at our 139 Centre Street building during the period.

NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS: As a result of the factors described above, we reported net loss attributable to common stockholders of \$10.3 million, or \$0.21 basic and diluted loss attributable to common stockholders per share for the six-month period ended March 31, 2006, as compared to a net loss attributable to common stockholders of \$17.5 million, or \$0.85 basic and diluted loss attributable to common stockholders per share for the same period in 2005.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2006, our negative working capital was \$8,662 as compared to \$8,378 as of September 30, 2005. The decrease in working capital as of March 31, 2006 was primarily due to the decrease in our cash and cash equivalents. 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 outflows, net of capital expenditures, to a level that approximates our cash inflows. Beginning 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 profitability is dependent upon our ability to grow our revenue while controlling costs and becoming more efficient. We believe we will ultimately be able to meet our 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 sales of assets, 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 March 31, 2006. 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.

Edgar Filing: GLOBIX CORP - Form 10-Q

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.

SIX-MONTH PERIOD ENDED MARCH 31, 2006

As of March 31, 2006, we had cash and cash equivalents totaling approximately \$8.7 million compared to approximately \$9.1 million on March 31, 2005. This decrease was mainly attributable to operating activities, investing activities and financing activities as described below.

OPERATING ACTIVITIES:

During the six month period ended March 31, 2006, net cash provided by operating activities was approximately \$7.4 million in comparison to \$1.7 million, which was used in operating activities during the same period in 2005. The improvement in our cash outflow is due mainly to the decrease in our loss from operations excluding depreciation and amortization and loss on impairment of assets. As part of our normal course of doing business we experienced changes in our accounts receivable, accounts payable, accrued liabilities and accrued interest, which in the aggregate did not have a material effect on our first six months of fiscal 2006 operating cash-flow.

INVESTING ACTIVITIES:

Net cash used in investing activities during the six month period ended March 31, 2006 was \$12.1 million. Approximately \$13.9 million was used for capital expenditures, offset by proceeds received from AT&T from the fiber optic exchange of \$2.0 million.

FINANCING ACTIVITIES:

Net cash provided by financing activities during the six month period ended March 31, 2006 was \$4.4 million. This was the result of proceeds of \$5.0 million from the issuance of our 9% senior notes and was partially offset by \$0.6 million used for paying our scheduled mortgage and capital lease payments.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At March 31, 2006, investments consisted of primarily a limited partnership that invests in fixed income securities and fixed rate investment grade and government securities denominated in U.S. dollars. At March 31, 2006, the majority of our investments were due to mature within twelve months and the carrying value of these investments approximated fair value.

At March 31, 2006, \$12.5 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. The Company believes that an immediate increase or decrease of 5% of the U.S. Dollar in comparison to the British Pound would not have a material impact on its operating results or cash flows.

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 March 31, 2006. 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

Except as otherwise disclosed herein, there have been no material changes since the 2005 Form 10-K.

We may not be able to use some of our net operating losses for U.S. federal income tax purposes, which may increase our tax liability.

We are currently undertaking a review of the net operating loss carry forwards, or NOLs, of each of Globix and NEON and changes in ownership of each of Globix and NEON since the effective date of Globix's and NEON's respective plans of reorganization (including as a result of Globix's acquisition of NEON) to determine whether some or all of such NOLs are further limited under Section 382 of the Internal Revenue Code and related regulations, or Section 382, beyond the limitations resulting from the changes in ownership of each of Globix and NEON in connection with each of Globix's and NEON's respective plans of reorganization. Previously, changes in the ownership of Globix's securities as a result of our plan of reorganization have caused there to be an annual limitation on the use of Globix NOLs that arose prior to the effective date of Globix's plan of reorganization. Similarly, prior to our acquisition of NEON, changes in the ownership of NEON securities as a result of NEON's plan of reorganization have caused there to be an annual limitation on the use of NEON NOLs that arose prior to the effective date of NEON's plan of reorganization.

Based on the information available to us and reviewed by our management as of May 10, 2006, we believe that Globix experienced another ownership change as a result of Globix's acquisition of NEON, thus further limiting the use of our NOLs that arose prior to the acquisition. In addition, based on the information available to us and reviewed by our management as of May 10, 2006, we currently believe that NEON did not experience a cumulative change of more than 50% in ownership for purposes of Section 382 on the date of Globix's acquisition of NEON. However, events subsequent to the acquisition have resulted in additional changes to the ownership of NEON for purposes of Section 382. As a result, if NEON experiences sufficient additional changes in ownership, the amount of NEON's NOLs available to offset any future taxable

Edgar Filing: GLOBIX CORP - Form 10-Q

income or gains will be further and substantially restricted. Events that could trigger such additional changes in ownership include sales by historic NEON shareholders of Globix securities, acquisitions of Globix securities that cause new or existing Globix shareholders to be treated as owning 5% or more (by value) of our stock for purposes of Section 382 or that cause existing 5% owners of our stock to increase their ownership interest, or other trading activity in (or issuances of) Globix securities. Additional limitations on our ability to use net operating losses as a result of any further ownership changes could significantly increase our future U.S. federal income tax liability.

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

During the second quarter of Globix's fiscal year ending September 30, 2006, the 2006 Annual Meeting of the Stockholders was held. At the meeting, nine directors of the Company were elected and our shareholders ratified the appointment of Amper, Politziner & Mattia, P.C. as our independent accountants for the fiscal year ending September 30, 2006.

1. The stockholders elected the following directors to serve until the next annual meeting of stockholders or until their successors are duly elected and qualified:

	Number of Shares Voted For	Number of Shares Withheld	Number of Shares Abstained
Peter K. Stevenson	35,917,491	857,408	
Ted S. Lodge	35,917,791	857,108	
José A. Cecin	34,673,602	2,101,297	
Stephen E. Courter	35,917,141	857,408	
John Forsgren	35,917,491	857,408	
Peter L. Herzig	21,741,614	15,033,285	
Steven Lampe	34,869,143	1,905,756	
Steven G. Singer	34,869,143	1,905,756	
Raymond L. Steele	35,917,491	857,408	

2. The stockholders ratified the amendments to the Company's 2003 Stock Option Plan:

Edgar Filing: GLOBIX CORP - Form 10-Q

Number of Shares Voted For	Number of Shares Voted Against	Number of Shares Abstained
26,412,293	6,943,751	2,590

3. The stockholders ratified that the option grants during fiscal year 2005 and the first quarter of fiscal year 2006 that exceeded the number of shares available under the 2003 Stock Option Plan are approved:

Number of Shares Voted For	Number of Shares Voted Against	Number of Shares Abstained
26,391,809	6,944,751	21,984

4. The stockholders ratified the appointment of Amper, Politziner & Mattia, P.C.:

Number of Shares Voted For	Number of Shares Voted Against	Number of Shares Abstained
36,772,718	2,151	30

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

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

Peter K. Stevenson,
Chief Executive Officer

Date: May 10, 2006

By: /S/ Henry J. Conicelli

Henry J. Conicelli
Principal Accounting Officer

Date: May 10, 2006

By: /S/ Eric J. Sandman

Eric J. Sandman
Principal Financial Officer

Date: May 10, 2006

