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GLOBIX CORP
Form 10-Q
May 14, 2001

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2001

OR

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

Commission File No. 0-25615

Globix Corporation
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3781263
(I.R.S. Employer
Identification No.)

139 Centre Street, New York, New York
(address of principal executive offices)

10013
(Zip Code)

Registrant's Telephone number, including area code: (212) 334-8500

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Number of shares of the Registrant's common stock outstanding as of May 9, 2001 was 41,926,200.

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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.....
Short-term investments.....
Marketable securities.....
Accounts receivable, net of allowance for doubtful accounts of \$4,208 and \$4,072,
respectively.....
Inventories.....
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 \$1,287 and \$719, respectively.....
Goodwill, net of accumulated amortization of \$1,344 and \$197, respectively.....
Other assets.....

Total assets.....

Liabilities and Stockholders' Deficit

Current liabilities:

Capital lease and other obligations.....
Accounts payable.....
Accrued liabilities.....
Accrued interest.....

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Total current liabilities.....	
Capital lease obligations, net of current portion.....	
Mortgage payable.....	
Senior Notes.....	
Other long term liabilities.....	
 Total liabilities.....	
 Redeemable convertible preferred stock.....	
 Stockholders' Deficit	
Common stock, \$.01 par value; 500,000,000 shares authorized; 41,892,229 and 37,307,315 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)

	Three months ended	

	March 31,	

	2001	2000
	----	----
	(Unaudited)	

Revenue.....	\$ 26,782	\$ 1
Operating costs and expense:		
Cost of revenue.....	10,480	1
Selling, general and administrative.....	28,308	2
Non-recurring lease termination and other related expenses.....	--	
Depreciation and amortization.....	7,951	
	-----	-----
Total operating costs and expenses.....	46,739	3
	-----	-----
Loss from operations.....	(19,957)	(1)
Interest and financing expense.....	(16,118)	(1)
Interest income.....	4,439	
Other income.....	1,461	
Other expense.....	(1,791)	

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Loss before extraordinary loss and cumulative effect of a change in accounting principle.....	(31,966)	(2)
Extraordinary loss.....	--	(1)
Cumulative effect of a change in accounting principle.....	--	
Net loss.....	(31,966)	(4)
Dividends and accretion on preferred stock.....	(1,761)	(1)
Net loss attributable to common stockholders'.....	\$ (33,727)	\$ (4)
Basic and diluted loss per share attributable to common stockholders' before extraordinary loss and cumulative effect of a change in accounting principle.....	\$ (0.87)	\$
Extraordinary loss per share.....	--	
Cumulative effect of a change in accounting principle.....	--	
Basic and diluted net loss per share attributable to common stockholders'.....	\$ (0.87)	\$
Weighted average common shares outstanding--basic and diluted.....	38,709,658	34,61

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

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GLOBIX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Cash flows from operating activities		20
Net loss.....		\$ (105)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization.....		15
Extraordinary loss on early extinguishment of debt.....		2
Cumulative effect of a change in accounting principle.....		17
Non-recurring lease termination and other related expenses.....		(1)
Gain on sale of short term investments.....		1
Loss on impairment of investment.....		
Amortization of debt issuance costs.....		
Amortization of deferred compensation.....		
Changes in operating assets and liabilities:		
Accounts receivable, net.....		1
Inventories.....		
Prepaid expenses and other current assets.....		(4)

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Other assets.....	(4
Accounts payable.....	(1
Accrued liabilities.....	9
Accrued interest.....	
Other.....	

Net cash used in operating activities.....	(69

Cash flows from investing activities	
Proceeds from sale of short term investments.....	10
Use of (investment in) restricted cash and investments.....	5
Purchases of property, plant and equipment.....	(91

Net cash used in investing activities.....	(75

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GLOBIX CORPORATION AND SUBSIDIARIES

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

		Six

		2001

Cash flows from financing activities		
Proceeds from exercise of stock options and warrants, net.....	\$ 2,4	
Proceeds from Senior Note offering, net of offering expenses.....		
Proceeds from issuance of redeemable convertible preferred stock, net.....		
Repayments of Senior Notes.....		
Proceeds from mortgage payable, net of expenses.....		
Repayments of mortgage payable and capital lease obligations.....	(2,0	

Net cash provided by financing activities.....	3	

Effects of exchange rate changes on cash and cash equivalents.....	(2,1	

Net (decrease) increase in cash and cash equivalents.....	(146,5	
Cash and cash equivalents, beginning of period.....	363,8	

Cash and cash equivalents, ending of period.....	\$ 217,2	
		=====
Supplemental disclosure of cash flow information		
Cash paid for interest.....	\$ 38,9	
Cash paid for income taxes.....	\$	
Cumulative dividends and accretion on preferred stock.....	\$ 3,4	
Non-cash financing activities:		
Equipment acquired under capital lease obligations.....	\$ 8,5	
Capital expenditures included in accounts payable and accrued liabilities.....	\$ 4,9	

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

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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, 2001 and the results of its operations for the three-month and six-months periods ended March 31, 2001 and 2000 and its cash flows for the six-month periods ended March 31, 2001 and 2000. 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-months periods ending March 31, 2001 are not necessarily indicative of the operating results that may be expected for future periods.

The consolidated balance sheet as of September 30, 2000 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, 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, 2000 on file with the Securities and Exchange Commission.

2. 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.....

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Property, plant and equipment, net.....

Certain computer and network equipment are recorded under capital leases that aggregated approximately \$14.7 and \$6.0 million as of March 31, 2001 and September 30, 2000, respectively. Accumulated amortization on the assets recorded under capital leases aggregated approximately \$4.2 and \$3.2 million as of March 31, 2001 and September 30, 2000, respectively.

Costs incurred prior to completion of construction of Internet data centers and network infrastructure are reflected as construction in progress in the accompanying consolidated balance sheets and will be 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 and related network equipment and is stated at cost. Capitalized costs include costs incurred under the construction contract, advisory, consulting and legal fees as well as labor and interest incurred during the construction phase. Capitalized interest is included in construction in progress under the provisions of SFAS No. 34 and totals approximately \$7.1 million and zero for the six-month periods ended March 31, 2001 and 2000, respectively.

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 with approximately 160,000 square feet of floor space 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 is 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.

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3. Senior Notes

In January 2000, the Company agreed to sell \$600.0 million 12.5% senior notes (the "12.5% 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 tender offer and related redemption of the outstanding 13% Senior Notes also resulted in a one time charge of \$17,577 or \$0.51 per share which has been recorded as an extraordinary item in the consolidated statement of operations.

The 12.5% Senior Notes mature on February 1, 2010. Interest on the 12.5% Senior Notes is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2000. The 12.5% Senior Notes are unsecured obligations of the Company and rank pari passu in right of payment with all existing and future unsecured and unsubordinated indebtedness and rank 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 are being amortized over ten years using the effective interest method.

4. Mortgage Payable

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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.

5. Redeemable Convertible Preferred Stock

The Company has designated 250,000 shares of its authorized 5,000,000 shares of Preferred Stock, \$0.01 par value, as a Series A. At March 31, 2001, there were 83,030 Series A Preferred Shares outstanding and 166,970 Series A Preferred Shares reserved for issuance.

On December 3, 1999, the Company issued \$80.0 million (80,000 shares) in Series A Convertible Preferred Stock (the "Series A 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 Series A Preferred Stock is convertible into common stock at \$10.00 per share at any time and may not be called for redemption by the Company for five years. Under the agreement, the Series A Preferred Stock is subject to mandatory redemption in 2014 and yields an annual dividend of 7.5% payable quarterly in cash or additional Series A Preferred Stock, at the option of the Company. The holders of the Series A Preferred Stock have a liquidation preference of \$1,000 per share and are entitled to cumulative dividends.

The Series A 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 Series A Preferred Stock transaction. Such costs have been recorded as a reduction of the carrying amount of the Series A Preferred Stock and are being accreted through a charge to additional paid in capital over the five-year period to the earliest redemption date.

During the three-month period ended March 31, 2001 and December 31, 2000 the Company declared and paid dividends in the form of a stock dividend to the holders of the Series A Preferred Stock. In connection with such dividends, the Holders of the Series A Preferred Stock received a total of 1,529 and 1,501 shares of Series A Preferred Stock on March 31, 2001 and December 31, 2000, respectively.

6. Stockholder's Equity

In December 2000, Globix granted approximately 3.1 million restricted stock awards 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 has 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, 2001 was \$562.

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7. 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

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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. Operating segments are managed separately and represent strategic business units that offer different products and serve different markets.

The Company's activities fall within two operating segments: the Internet Division and the Server Sales and Integration Division. The following table sets forth industry segment information for the three-month period ended March 31, 2001 and 2000:

	Three-month period	
	March 31	
	2001	
	2000	
Revenue:		
Internet.....	\$ 25,077	\$
Server sales and integration.....	1,705	-
	-----	-----
Consolidated.....	\$ 26,782	\$
	-----	-----
Operating income (loss):		
Internet.....	\$ (29)	\$
Server sales and integration.....	69	-
Corporate.....	(19,997)	-
	-----	-----
Consolidated.....	\$ (19,957)	\$
	-----	-----
Identifiable assets:		
Internet.....	\$292,477	\$
Server sales and integration.....	1,769	-
Corporate.....	347,031	-
	-----	-----
Consolidated.....	\$641,277	\$
	-----	-----

The following table sets forth geographic segment information for the three-month period ended March 31, 2001 and 2000:

	Three-month period	
	March 31	
	2001	
	2000	
Revenue:		
United States.....	\$ 21,138	\$
Europe.....	5,644	-
	-----	-----
Consolidated.....	\$ 26,782	\$
	-----	-----

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Operating income (loss):		
United States.....	\$ (17,008)	\$
Europe.....	(2,949)	

Consolidated.....	\$ (19,957)	\$
	=====	
Identifiable assets:		
United States.....	\$566,239	\$
Europe.....	75,038	

Consolidated.....	\$641,277	\$
	=====	

8. 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.

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The following table summarizes the equivalent number of common shares assuming the related securities that were outstanding as of March 31, 2001 and 2000 had been converted, but not included in the calculation of diluted loss per share as such shares are antidilutive:

Convertible preferred stock.....	
Stock options.....	
Unvested restricted stock.....	
Warrants.....	

The following is a reconciliation of net loss attributable to common stockholders' for the three-month and six-month periods ended March 31, 2001 and 2000:

	Three-month period

	March 31,

	2001

	2

Numerator:

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Loss before extraordinary loss and cumulative effect of a change in accounting principle.....	\$ (31,966)	\$ (
Dividend and accretion on preferred stock.....	(1,761)	
	-----	-----
Net loss attributable to common stockholders' before extraordinary loss and cumulative effect of a change in accounting principle.....	(33,727)	(3
Extraordinary loss.....	--	(
Cumulative effect of a change in accounting principle.....	--	
	-----	-----
Net loss attributable to common stockholders'.....	\$ (33,727)	\$ (
	=====	=====
Denominator:		
Weighted average shares outstanding-basic and diluted.....	38,709,658	34,6
	=====	=====

9. 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, 2001 and 2000:

	Three-month period e	
	March 31,	
	2001	2000
	----	----
Net loss.....	\$ (31,966)	\$ (47,
Other comprehensive income (loss):		
Unrealized gain (loss) on marketable securities available for sale.....	(290)	2,
Foreign currency translation adjustment.....	(3,268)	(
	-----	-----
Comprehensive loss:.....	\$ (35,524)	\$ (44,
	=====	=====

10. Revenue Recognition

Monthly service revenue related to managed hosting and Internet access is recognized over the period services are provided. Service and equipment installation revenue is recognized at completion of installation and upon commencement of service. 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.

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Effective October 1, 2000, the Company changed its revenue recognition method for set up and service installation fees upon the adoption of SAB No. 101 "Revenue Recognition in Financial Statements" ("SAB No. 101"). 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 life of the underlying service contracts, which range from twelve to thirty six months. Prior to the adoption of SAB No. 101, the Company recognized revenue immediately upon completion of set up or installation. The change in accounting principle resulted in a revenue deferred and cumulative effect charge totaling \$2.3 million or \$0.06 per share, which was reflected in the accompanying consolidated statements of operations. The adoption of SAB No. 101 decreased the net loss \$188 and \$232 for the three-month and six-month periods ended March 31, 2001, respectively.

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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:

- . potential marketplace or technology changes, rendering existing products and services obsolete,
- . changes in or the lack of anticipated changes in the regulatory environment in various countries, including potential legislation increasing our exposure to content distribution and intellectual property liability,
- . changes in customer purchasing policies and practices,
- . Globix's ability to recruit and retain sufficient and qualified personnel needed to staff our expanding operations,
- . the ability of Globix to raise additional capital to finance expansion,
- . the sufficiency of existing cash and cash flow to complete our business plan and fund our working capital and debt service,
- . Globix's large existing debt obligations and history of operating losses,
- . the ability of Globix to integrate, operate and further expand and

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upgrade our network, and

- . the continued growth, use and improvement of the Internet, along with the risks inherent in new product and service introductions and the entry into new geographic markets.

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 field operations, which provide secure, and fault-tolerant Internet data centers, high performance network services, which provide connectivity to the Internet and complex Internet-based application services, which include hosting, streaming media and GlobixMail. These three major 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.

Our customers primarily use our products and services to maintain complex computer equipment in a secure fault-tolerant environment with connectivity to a high-speed, high-capacity, direct link to the Internet and to support complex Internet applications. We currently offer our products and services from our Internet data centers in New York City, London and Santa Clara, California. Our teams of account managers, computer system and network engineers and customer support specialists are based at each of these locations. We also maintain Internet data centers in Atlanta and the Washington D.C. suburb of McLean, Virginia. Our strong local market presence enables us to evaluate the needs of our customers and quickly respond with tailored solutions. We also provide our customers the ability to outsource the systems administration and technical management of their Internet presence. Our products are flexible and scaleable, allowing us to modify the size and breadth of the services we provide.

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We believe that our ability to offer a broad range of Internet products and services, combined with our local sales and support professionals and high performance Internet data center facilities and network, differentiates us from our competitors.

Globix was founded in 1989 as a value-added reseller primarily focused on providing custom computer hardware and software solutions for desktop publishing. By 1995, Globix recognized the growing demand by businesses for electronic information delivery and began to re-shape its corporate strategy to focus on offering Internet products and services. In early 1996, Globix raised net proceeds of approximately \$7.4 million through an initial public offering of its common stock and subsequently began to offer Internet access products and services to business customers. In 1997, Globix expanded its product and service offerings beyond Internet access and began to offer a range of end-to-end Internet solutions designed to enable its customers to more effectively capitalize on the Internet as a business tool.

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In 1998, Globix undertook a major expansion plan 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 current 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 Series A 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.

For fiscal periods ending on or before March 31, 2001 Globix reports 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. Globix expects that Internet Division revenues will continue to grow both absolutely and as a percentage of total revenues.

The largest component of Globix's total revenue is complex managed hosting services and connectivity including both minimum committed amounts and overages. In addition to fees based on bandwidth usage, Globix charges certain customer's monthly fees for the use of its physical facilities. Globix's complex managed hosting contracts typically range from one to two years. The second largest component of Globix's total revenue is from dedicated Internet access services to business customers. Globix's Internet 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. Globix continues to derive a portion of its total revenue from sales of third-party hardware and software, including workstation, web and database servers, network equipment, and server and application software licenses. Globix intends to continue to offer higher-margin workstation, server and software components as a complement to its Internet solutions. Globix maintains a limited inventory of hardware and software and typically purchases such products from third-party vendors only upon receipt of a customer order.

Cost of revenue for the Internet Division 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. Cost of revenue for the Server Sales and Integration Division consist primarily of acquisition costs of third-party hardware and software.

Selling, general and administrative expenses consist primarily of sales and

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marketing personnel and related occupancy costs; advertising costs; salaries and occupancy costs for executive, financial, personnel recruitment and administrative personnel and related operating expenses associated with network operations, customer service and field services. Globix continues to hire a significant number of additional personnel to staff its facilities and Internet data centers and to expand its sales and marketing, network operations, customer service and field services personnel. Accordingly, Globix expects selling, general and administrative expenses to continue to increase for the foreseeable future.

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Globix depreciates its capital assets on a straight-line basis over the useful life of the assets, ranging from 3 to 40 years. Globix began to recognize depreciation expense in the year ended September 30, 1999 for its Internet data centers in New York, London and Santa Clara, California upon commencement of operations at each of these facilities. 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, 2001 and 2000, Globix generated negative cash flows from operations of approximately \$69.5 million and \$49.1 million, respectively, and incurred net losses of approximately \$105.3 million and \$67.9 million, respectively. Globix expects to continue to experience negative cash flow from operations and to incur net losses as a result of its significant investment in the expansion of its network and facilities, the hiring of additional personnel and interest expense related to the 12.5% senior notes. As of March 31, 2001, Globix had an accumulated deficit of approximately \$291.3 million.

Three-Months Ended March 31, 2001 As Compared To The Three-Months Ended March 31, 2000

Revenue. Total revenue for the three-month period ended March 31, 2001 increased 50% to \$26.8 million from \$17.9 million for the three-month period ended March 31, 2000. Revenue from the Internet Division for the three-month period ended March 31, 2001 increased 143.2% to \$25.1 million from \$10.3 million for the three-month period ended March 31, 2000. This increase was primarily attributable to availability of new data center space, which provided the growing number of account managers with an opportunity to increase the number of customers and upsell existing accounts. Revenue from the Server Sales and Integration Division decreased 77.6% to \$1.7 million for the three-month period ended March 31, 2001 from \$7.6 million for the three-month period ended March 31, 2000. This decrease was primarily attributable to a planned shift in product mix toward recurring revenue streams with higher margins.

Cost of Revenue. Cost of revenue for the three-month period ended March 31, 2001 was \$10.5 million or 39.1% of total revenue as compared to \$10.2 million or 57.0% of total revenue for the three-month period ended March 31, 2000. The increase in cost of revenue was primarily attributable to an increase in data transmission costs because of higher network operating and maintenance expenses associated with the expansion of the network backbone. As utilization of the network increases in future years, we expect to realize a reduction in this cost as a percent of revenue due to the network's scalability and fixed cost structure.

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Selling, General and Administrative. Selling general and administrative expenses for the three-month period ended March 31, 2001 were \$28.3 million or 105.7% of total revenue as compared to \$23.1 million or 128.9% of total revenue for the three-month period ended March 31, 2000. Approximately \$4.1 million or 78.8% of the increase was attributable to an increase in sales and marketing, engineering, recruiting, finance and administrative personnel necessitated by the growth in Internet-related operations. The number of employees increased from approximately 590 as of March 31, 2000 to approximately 860 as of March 31, 2001. Approximately \$1.7 million or 32.7% of the increase was attributable to an increase in bad debt expense necessitated by the recent deterioration in the business environment, particularly as it relates to the dot.com sector. These increases in personnel and bad debt expenses were partially off set by a \$1.1 million or 51.0% reduction in marketing expenses for the three-month period ended March 31, 2001 as compared to the same period last year.

Depreciation and Amortization. Depreciation and amortization increased to \$8.0 million for the three-month period ended March 31, 2001 as compared to \$4.6 million for the three-month period ended March 31, 2000. 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 decreased to \$16.1 million for the three-month period ended March 31, 2001 as compared to \$16.9 million for the three-month period ended March 31, 2000. The decrease is a result of increased capitalized interest in connection with the build-out of the network infrastructure and Interest data centers totaling \$3.9 million for the three-months ended March 31, 2001 as compared to zero for the three-months ended March 31, 2000 off-set by interest costs associated with the \$600 million 12.5% senior notes and the interest costs associated with the \$21 million mortgage for the three-month period ended March 31, 2001 being included for the full three-month period in 2001 compared to the interest cost associated with this debt for only a portion of the three-month period ended March 31, 2000. The decrease in interest income to \$4.4 million for the three-month period ended March 31, 2001 reflects the decrease in interest rates compared to the same three-month period in the prior year and decreased 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.

Other Income. The increase in other income to \$1.5 million for the three-months ended March 31, 2001 is a result of the gain realized on the sale of short-term investments.

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Other Expense. The increase in other expense to \$1.8 million for the three-months ended March 31, 2001 is a result of the loss realized on the impairment of certain strategic investments.

Net Loss and Net Loss Attributable To Common Stockholders. As a result of the above, Globix reported a net loss of \$32.0 million and net loss attributable to common stockholders of \$33.7 million for the three-month period ended March 31, 2001 or \$0.87 per share as compared to a net loss before extraordinary item of \$29.5 million or \$0.90 per share and a net loss attributable to common stockholders of \$48.9 million or \$1.41 per share (including the extraordinary loss associated with the \$17.6 million or \$0.51 per share impact of the early extinguishment of the Company's 13% Senior Notes) for the three-month period ended March 31, 2000.

Six-Months Ended March 31, 2001 As Compared To The Six-Months Ended March 31, 2000

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Revenue. Total revenue for the six-month period ended March 31, 2001 increased 55.7% to \$53.0 million from \$34.1 million for the six-month period ended March 31, 2000. Revenue from the Internet Division for the six-month period ended March 31, 2001 increased 181.9% to \$48.7 million from \$17.3 million for the six-month period ended March 31, 2000. This increase was primarily attributable to availability of new data center space, which provided the growing number of account managers with an opportunity to increase the number of customers and upsell existing accounts. Revenue from the Server Sales and Integration Division decreased 74.2% to \$4.3 million for the six-month period ended March 31, 2001 from \$16.8 million for the six-month period ended March 31, 2000. This decrease was primarily attributable to a planned shift in product mix toward recurring revenue streams with higher margins.

Cost of Revenue. Cost of revenue for the six-month period ended March 31, 2001 was \$20.9 million or 39.5% of total revenue as compared to \$20.3 million or 59.5% of total revenue for the six-month period ended March 31, 2000. The increase in cost of revenue was primarily attributable to an increase in data transmission costs because of higher network operating and maintenance expenses associated with the expansion of the network backbone. As utilization of the network increases in future years, we expect to realize a reduction in this cost as a percent of revenue due to the network's scalability and fixed cost structure.

Selling, General and Administrative. Selling general and administrative expenses for the six-month period ended March 31, 2001 were \$59.1 million or 111.5% of total revenue as compared to \$42.8 million or 125.6% of total revenue for the six-month period ended March 31, 2000. Approximately \$10.9 million or 66.9% of the increase was attributable to an increase in sales and marketing, engineering, recruiting, finance and administrative personnel necessitated by the growth in Internet-related operations. The number of employees increased from approximately 590 as of March 31, 2000 to approximately 860 as of March 31, 2001. Approximately \$4.1 million or 25.2% of the increase was attributable to an increase in bad debt expense necessitated by the recent deterioration in the business environment, particularly as it relates to the dot.com sector. These increases in selling, general and administrative expenses were off set by a \$1.7 million or 30.9% reduction in marketing expenses for the six-month period ended March 31, 2001 as compared to the same period last year.

Non-Recurring Lease Termination and Other Related Expenses. This charge of approximately \$38.1 million is attributable to the non-recurring lease termination and other equipment related expenses 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 \$15.5 million for the six-month period ended March 31, 2001 as compared to \$7.9 million for the six-month period ended March 31, 2000. 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 \$32.6 million for the six-month period ended March 31, 2001 as compared to \$22.4 million for the six-month period ended March 31, 2000. The increase is a result of interest costs associated with the \$600 million 12.5%

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senior notes and the interest costs associated with the \$21 million mortgage for the six-month period ended March 31, 2001 being included for the full six-month period in 2001 compared to the interest cost associated with this debt for only a portion of the six-month period ended March 31, 2000, off-set by increased capitalized interest in connection with the build-out of the network infrastructure and Interest data centers totaling \$7.1 million for the six-months ended March 31, 2001 as compared to zero for the six-months ended March 31, 2000. The increase in interest income to \$10.9 million for the six-month period ended March 31, 2001 reflects the cash position derived from the net

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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.

Other Income. The increase in other income to \$1.5 million for the six-months ended March 31, 2001 is a result of the gain realized on the sale of short-term investments.

Other Expense. The increase in other expense to \$2.1 million for the six-months ended March 31, 2001 is a result of the loss realized on the impairment of certain strategic investments.

Net Loss and Net Loss Attributable To Common Stockholders. As a result of the above, Globix reported a net loss of \$105.3 million and net loss attributable to common stockholders of \$108.7 million for the six-month period ended March 31, 2001 or \$2.86 per share (including the cumulative effect change of accounting principle associated with the adoption of SAB No. 101 of \$2.3 million or \$0.06 per share impact from the cumulative effect change of accounting principle) as compared to a net loss before extraordinary item of \$50.4 million or \$1.55 per share and a net loss attributable to common stockholders of \$70.2 million or \$2.06 per share (including the extraordinary loss associated with the \$17.6 million or \$0.51 per share impact of the early extinguishment of the Company's 13% Senior Notes) for the six-month period ended March 31, 2000.

Liquidity and Capital Resources

Globix has historically had losses from operations, which have been funded primarily through the issuance of debt and equity securities. In fiscal 1999, we received net proceeds of approximately \$136.6 million from equity financings.

In December 1999 Globix issued \$80.0 million in Series A Convertible Preferred Stock to affiliates of Hicks, Muse, Tate & Furst Incorporated ("Hicks Muse") to expand our build-out of Internet data centers and other facilities. The Company incurred approximately \$4.75 million of issuance costs associated with the Series A Convertible Preferred Stock transaction, of which \$3.2 million was a fee paid to Hicks Muse. The preferred stock is convertible into common stock at any time and cannot be called for redemption for five years. Under the agreement, the Series A Convertible Preferred Stock is subject to mandatory redemption in 2014 and yields an annual dividend rate of 7.5% payable quarterly in cash or additional preferred stock at the option of Globix.

In January 2000, Globix obtained a \$21.0 million loan secured by a first mortgage on the building at 139 Centre Street housing Globix's New York Internet data center. The loan accrues interest at a rate of 9.16% (subject to adjustment on February 11, 2010) annually using a 25-year amortization schedule and is due February 2010.

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In February 2000, the Company issued \$600 million 12.5% Senior Notes due 2010 in a private placement resulting in net proceeds of approximately \$580.0 million. In March 2000 Globix completed its tender offer to purchase for cash all of its outstanding 13% Senior Notes due 2005, \$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.

Cash flows used in operating activities were \$69.5 and \$49.1 million for the six-months ended March 31, 2001 and 2000, 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 losses were the primary component of cash used in operating activities, offset in 2001 by non-cash charges related to the lease termination and other related equipment expenses, the cumulative effect of the adoption of SAB No. 101 and a loss on impairment of an investment as well as, in both periods, depreciation and amortization expenses relating to our build out of our network and facilities and non-cash amortization of debt issuance costs.

Cash flows used in investing activities were \$75.3 and \$65.3 million for the six-months ended March 31, 2001 and 2000, respectively. Investments in capital expenditures related to our network and facilities were \$104.8 and \$19.0 million for the six-months ended March 31, 2001 and 2000, respectively. Of this amount, \$91.3 and \$19.0 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 and accrued liabilities at each period-end.

Cash flows provided by financing activities were \$0.4 and \$511.7 million for the six-months ended March 31, 2001 and 2000, respectively. In 2001 and 2000, Globix received net proceeds from the exercise of stock options and warrants and repaid certain mortgage and capital lease obligations. In 2000, cash flows from financing activities included debt and equity financings totaling \$675.3 million offset by the early repayment of \$170.4 million of 13% Senior Notes.

As of March 31, 2001, we had \$256.0 million of cash, cash equivalents, short-term investments, restricted cash, restricted investments and marketable securities. At March 31, 2001, we had working capital of approximately \$192.6

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million, as compared to working capital of approximately \$366.1 million at September 30, 2000. Working capital decreased \$173.5 million primarily due to timing of operating cash receipts and disbursements, funding of operating losses and capital expenditures.

Certain computer and network equipment has been financed through vendors and financial institutions under capital and operating lease arrangements. Capital lease obligations total approximately \$9.7 million at March 31, 2001. As of March 31, 2001, Globix has various agreements to lease facilities and equipment and is obligated to make future minimum lease payments of approximately \$280.2 million on operating leases expiring in various years through 2020. In addition, Globix has issued collateralized letters of credit aggregating approximately \$26.7 million. The related collateral funds are included in restricted cash and investments on the consolidated balance sheet at March 31, 2001. We intend to continue to make significant capital expenditures during the next twelve-months as we expand our Internet data centers and network infrastructure. We expect to finance such capital expenditures primarily through

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existing cash, vendor financing and a mortgage with respect to our Greenwich Street, New York property. Since our September 30, 2000 fiscal year-end, Globix has secured commitments for equipment financing arrangements from several vendors totaling approximately \$47.0 million. At March 31, 2001 approximately \$32.0 million of such commitments are unused.

Due to current state of the capital markets, we have determined that Globix cannot rely upon obtaining additional funding from the debt and equity markets on an acceptable basis within the near future. Consequently, we have continued to modify our expansion plan in order to delay, scale-back and eliminate certain facilities and the purchase of related equipment. The plan assumes that Globix will refinance its new Greenwich Street, New York property, which is currently debt free along with certain other revenue and cost assumptions. There can be no assurance that these assumptions will prove correct. Based on these assumptions, our cash on hand is sufficient to fund our operations for the next twelve months. We will continue to monitor the capital markets with a view towards obtaining additional funding to accelerate the growth of our business.

Conversion to the Euro

On January 1, 1999, eleven of the fifteen member countries of the European Union established a fixed conversion rate between their existing sovereign currencies and a new currency called the "Euro." These countries have agreed to adopt the Euro as their common legal currency on that date. The Euro trades on currency exchanges and is available for non-cash transactions. Thereafter and until January 1, 2002, the existing sovereign currencies will remain legal tender in these countries. On January 1, 2002, the Euro is scheduled to replace the sovereign legal currencies of these countries.

Globix does not anticipate that the implementation of the Euro will have a material adverse effect on its business operations as the operations of Globix expands into other European countries. However there are no assurances that the implementation of the Euro will not have a material adverse affect on Globix's business, financial condition and results of operations. In addition, Globix cannot predict the impact the Euro will have on currency exchange rates or Globix's currency exchange risk.

Recent Technical Accounting Pronouncements

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS No. 133"), as amended, which is effective for all quarters of the fiscal year beginning after June 15, 2000. This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging securities. Globix expects the adoption of SFAS No. 133 will not have a material impact on Globix's consolidated financial position, results of operations and cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

At March 31, 2001, 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. 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. Annual maturities for our capital lease obligations (including interest) in each of the next twelve-months are as

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follows: \$4.9 million in 2002, \$3.1 million in 2003, \$2.2 million in 2004, \$1.1 million in 2005 and thereafter.

Marketable securities include Globix's strategic investment in Edgar On-Line, a publicly traded entity, which is recorded at its 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, 2001, all of our investments are due to mature within twelve months except \$30.5 million and the carrying value of such investments approximates fair value. At March 31, 2001, \$37.4 million of our cash and investments were restricted in accordance with the terms of certain collateral obligations.

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

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PART II

Item 1. Legal Proceedings

We are not party to any material legal proceedings.

Item 2. Changes in 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 quarter ended March 31, 2001 there were no matters submitted to a vote of security holders.

Item 5. Other Information

Not Applicable

Item 6. Exhibits and Reports on Form 8-K

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(a) Exhibits

10.24 Amendment No. 2 to Marc H. Bell Employment Agreement dated
March 21, 2001

(b) Reports on Form 8-K-Not Applicable

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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/ Marc H. Bell

Marc H. Bell, Chairman and
Chief Executive Officer

Date: May 10, 2001

By: /s/ Brian L. Reach

Brian L. Reach, Senior Vice President
and Chief Financial Officer

Date: May 10, 2001

By: /s/ Shawn P. Brosnan

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

Date: May 10, 2001

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