

NAVISITE INC
Form 8-K
December 22, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 8-K
CURRENT REPORT**
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Date of Report (Date of earliest event reported): December 17, 2010
NAVISITE, INC.
(Exact name of registrant as specified in its charter)

Delaware <i>(State or other jurisdiction of incorporation)</i>	000-27597 <i>(Commission File No.)</i>	52-2137343 <i>(IRS Employer Identification No.)</i>
400 Minuteman Road Andover, Massachusetts <i>(Address of principal executive offices)</i>	(978) 682-8300 <i>(Registrant's telephone number, including area code)</i>	01810 <i>(Zip Code)</i>
Not Applicable <i>(Former name or former address, if changed since last report.)</i>		

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01. Entry into a Material Definitive Agreement.

On December 17, 2010 (the Effective Date), NaviSite, Inc. (NaviSite) and its wholly owned subsidiary, Clearblue Technologies/Dallas, Inc. (Seller), entered into an Asset Purchase Agreement (the Asset Purchase Agreement) with IX Investments, LLC (IXI), and Cologix Dallas, Inc. (the Buyer) (by joinder and as successor-in-interest to IXI, the original party to the Agreement), pursuant to which NaviSite and the Seller sold to the Buyer, at a closing that occurred later that day, (the Closing) substantially all of NaviSite s and the Seller s assets primarily used in connection with the Dallas colocation business (the Business).

The purchase price for the assets sold by NaviSite and the Seller to the Buyer was \$12,750,000 (the Cash Amount) and is subject to adjustment pursuant to a working capital adjustment mechanism set forth in the Asset Purchase Agreement. The Buyer also assumed certain liabilities of NaviSite and the Seller related to the Business, including accounts payable, customer credits and liabilities arising after Closing with respect to certain agreements assumed by the Buyer at the Closing. As security for the indemnification obligations of NaviSite and the Seller set forth in the Asset Purchase Agreement, \$1,275,000 was retained from the Cash Amount and deposited in escrow with a third-party agent at the Closing, and will be held in escrow until February 29, 2012.

NaviSite intends to use the net proceeds of the transactions contemplated by the Asset Purchase Agreement to repay certain principal obligations under the Amended and Restated Credit Agreement, dated as of September 12, 2007, by and among NaviSite, certain of its subsidiaries, Canadian Imperial Bank of Commerce, CIBC World Markets Corp., CIT Lending Services Corporation, and certain affiliated entities.

Due solely to the sale of the Business, NaviSite is revising its guidance for the second quarter of fiscal year 2011 to revenue of between \$32.2 million and \$32.7 million and adjusted EBITDA of between \$7.1 million and \$7.4 million.

Item 2.01 Completion of Acquisition or Disposition of Assets.

The information set forth in Item 1.01 of this Form 8-K is hereby incorporated in this Item 2.01 by reference.

Item 9.01 Financial Statements and Exhibits.

(b) Pro forma financial information.

The following unaudited pro forma condensed consolidated financial statements present the pro forma financial position and results of operations of NaviSite and its subsidiaries (the Company) based upon historical financial information after giving effect to the sale of substantially all of the assets of the Business to the Buyer, pursuant to the Asset Purchase Agreement.

The unaudited pro forma condensed consolidated financial statements presented herein have been prepared in accordance with Article 11 of Regulations S-X and are based upon the Company s audited consolidated financial statements for the years ended July 31, 2010 and 2009, and the unaudited consolidated financial statements as of and for the three months ended October 31, 2010 and 2009, and certain assumptions, as set forth in the related notes, that the Company believes are reasonable. The unaudited pro forma condensed consolidated balance sheet is presented as if the sale had been completed on October 31, 2010, and the unaudited pro forma condensed consolidated statements of operations are presented as if the sale had been completed as of the beginning of the reporting period. The pro forma adjustments presented herein are based on estimates and certain information that is currently available and may change as additional information becomes available. The unaudited pro forma condensed consolidated financial statements are not necessarily indicative of the results of operations or the financial position that would have been achieved had the sale been completed at the beginning of or as of the periods presented, nor are they indicative of the future results of operations or future financial position of the Company.

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NaviSite, Inc.
Unaudited Pro Forma Condensed Consolidated Balance Sheet
As of October 31, 2010
(In Thousands)

	NaviSite	Disposition and Pro Forma	NaviSite
	Historical	Adjustments	Pro Forma
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,605	\$ 3,549 (a)	\$ 10,154
Accounts receivable, net	11,165	(281) (b)	10,884
Unbilled accounts receivable	353	(b)	353
Prepaid expenses and other current assets	10,490	(6) (b)	10,484
Total current assets	28,613	3,262	31,875
Non-current assets	86,373	(3,243) (b,h)	83,130
Total assets	\$ 114,986	\$ 19	\$ 115,005
LIABILITIES, PREFERRED STOCK AND STOCKHOLDERS EQUITY (DEFICIT)			
Current liabilities:			
Notes payable, current portion	\$ 4,583	\$	\$ 4,583
Capital lease obligations, current portion	4,976	(b)	4,976
Accounts payable	5,379	(26) (b)	5,353
Accrued expenses, deferred revenue, deferred other income and customer deposits	18,956	(105) (b)	18,851
Transaction related obligations		904 (c)	904
Total current liabilities	33,894	773	34,667
Total non-current liabilities	67,708	(8,401) (d)	59,307
Total liabilities	101,602	(7,628)	93,974
Preferred stock	35,279		35,279
Total stockholders equity (deficit)	(21,895)	7,647 (e)	(14,248)
Total liabilities, preferred stock and stockholders equity (deficit)	\$ 114,986	\$ 19	\$ 115,005

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NaviSite, Inc.
Unaudited Pro Forma Condensed Consolidated Statement of Operations
For the Three Months Ended October 31, 2010
(In Thousands, except share amounts)

	NaviSite	Disposition and Pro Forma	NaviSite Pro Forma
	Historical	Adjustments	
Revenue	\$ 33,361	\$ (1,303) (f)	\$ 32,058
Cost of revenue	16,175	(740) (f)	15,435
Depreciation and amortization	4,534	(29) (f)	4,505
Total cost of revenue	20,709	(769)	19,940
Gross profit	12,652	(534)	12,118
Operating expenses:			
Selling and marketing	4,748	(f)	4,748
General and administrative	7,023	(f)	7,023
Total operating expenses	11,771		11,771
Income (loss) from operations	881	(534)	347
Other income (expense):			
Interest income	13		13
Interest expense	(1,671)	181	(1,490)
Other income (expense), net	(115)		(115)
Net other income (expense)	(1,773)	181(f) (g)	(1,592)
Loss from operations before income taxes	(892)	(353)	(1,245)
Income taxes	(307)	(f)	(307)
Net income (loss)	(1,199)	(353)	(1,552)
Accretion of preferred stock dividends	(995)		(995)
Net income (loss) attributable to common stockholders	\$ (2,194)	\$ (353)	\$ (2,547)

Basic and diluted net loss per common share:

Net income (loss) attributable to common stockholders	\$ (0.06)	\$ (0.07)
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Basic and diluted weighted average number of common shares outstanding	36,979	36,979
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NaviSite, Inc.
Unaudited Pro Forma Condensed Consolidated Statement of Operations
For the Three Months Ended October 31, 2009
(In Thousands, except share amounts)

	NaviSite Historical (1)	Disposition and Pro Forma Adjustments	NaviSite Pro Forma
Revenue	\$ 30,563	\$ (1,210) (f)	\$ 29,353
Cost of revenue	14,950	(673) (f)	14,277
Depreciation and amortization	4,185	(100) (f)	4,085
Total cost of revenue	19,135	(773)	18,362
Gross profit	11,428	(437)	10,991
Operating expenses:			
Selling and marketing	4,710	(f)	4,710
General and administrative	5,501	(f)	5,501
Total operating expenses	10,211		10,211
Income from operations	1,217	(437)	780
Other income (expense):			
Interest income	7		7
Interest expense	(2,527)	221	(2,306)
Other income (expense), net	98		98
Net other income (expense)	(2,422)	221 (f) (g)	(2,201)
Loss from operations before income taxes	(1,205)	(216)	(1,421)
Income taxes	(357)	(f)	(357)
Loss from continuing operations	(1,562)	(216)	(1,778)
Loss from discontinued operations, net of income taxes	(822)		(822)
Net income (loss)	(2,384)	(216)	(2,600)
Accretion of preferred stock dividends	(899)		(899)

Net income (loss) attributable to common stockholders	\$	(3,283)	\$	(216)	\$	(3,499)
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Basic and diluted net loss per common share:

Loss from continuing operations attributable to common stockholders		(0.07)		(0.07)
Loss from discontinued operations		(0.02)		(0.02)

Net income (loss) attributable to common stockholders	\$	(0.09)	\$	(0.09)
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Basic and diluted weighted average number of common shares outstanding		36,004		36,004
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NaviSite, Inc.
Unaudited Pro Forma Condensed Consolidated Statement of Operations
For the Year Ended July 31, 2010
(In Thousands, except share amounts)

	NaviSite Historical (1)	Disposition and Pro Forma Adjustments(h)	NaviSite Pro Forma
Revenue	\$ 126,147	\$ (5,048) (f)	\$ 121,099
Cost of revenue	62,314	(2,622) (f)	59,692
Depreciation and amortization	16,524	(262) (f)	16,262
Total cost of revenue	78,838	(2,884)	75,954
Gross profit	47,309	(2,164)	45,145
Operating expenses:			
Selling and marketing	20,569	(f)	20,569
General and administrative	21,617	(f)	21,617
Total operating expenses	42,186		42,186
Income from operations	5,123	(2,164)	2,959
Other income (expense):			
Interest income	23		23
Interest expense	(8,096)	805	(7,291)
Loss on debt extinguishment			
Other income (expense), net	288		288
Net other income (expense)	(7,785)	805 (f) (g)	(6,980)
Loss from continuing operations before income taxes and discontinued operations	(2,662)	(1,359)	(4,021)
Income taxes	(755)	(f)	(755)
Loss from continuing operations	(3,417)	(1,359)	(4,776)
Loss from discontinued operations, net of income taxes	(3,604)		(3,604)
	20,494		20,494

Gain on sale of discontinued operations, net of income taxes

Net income (loss)	13,473	(1,359)	12,114
Accretion of preferred stock dividends	(3,718)		(3,718)
Net income (loss) attributable to common stockholders	\$ 9,755	\$ (1,359)	\$ 8,396
Basic and diluted net loss per common share:			
Loss from continuing operations attributable to common stockholders	(0.19)		(0.22)
Loss from discontinued operations	(0.10)		(0.10)
Gain on sale of discontinued operations	0.56		0.56
Net income (loss) attributable to common stockholders	\$ 0.27		\$ 0.23
Basic and diluted weighted average number of common shares outstanding	36,354		36,354

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NaviSite, Inc.
Unaudited Pro Forma Condensed Consolidated Statement of Operations
For the Year Ended July 31, 2009
(In Thousands, except share amounts)

	NaviSite Historical (1)	Disposition and Pro Forma Adjustments	NaviSite Pro Forma
Revenue	\$ 125,379	\$ (5,179) (f)	\$ 120,200
Cost of revenue	63,854	(2,543) (f)	61,311
Depreciation and amortization	17,211	(334) (f)	16,877
Restructuring charge	209		209
Total cost of revenue	81,274	(2,877)	78,397
Gross profit	44,105	(2,302)	41,803
Operating expenses:			
Selling and marketing	19,206	(f)	19,206
General and administrative	22,867	(f)	22,867
Loss on settlement	5,736		5,736
Restructuring charge	180		180
Total operating expenses	47,989		47,989
Income (loss) from operations	(3,884)	(2,302)	(6,186)
Other income (expense):			
Interest income	43		43
Interest expense	(9,287)	884	(8,403)
Other income (expense), net	690		690
Net other income (expense)	(8,554)	884 (f) (g)	(7,670)
Loss from operations before income taxes	(12,438)	(1,418)	(13,856)
Income taxes	(1,241)	(f)	(1,241)
Loss from continuing operations	(13,679)	(1,418)	(15,097)
Loss from discontinued operations, net of income taxes	(1,432)		
Gain on sale of discontinued operations, net of income taxes			

Net income (loss)	(15,111)	(1,418)	(15,097)
Accretion of preferred stock dividends	(3,350)		(3,350)
Net income (loss) attributable to common stockholders	\$ (18,461)	\$ (1,418)	\$ (18,447)
Basic and diluted net loss per common share:			
Loss from continuing operations attributable to common stockholders	(0.48)		(0.52)
Loss from discontinued operations	(0.04)		
Net income (loss) attributable to common stockholders	\$ (0.52)		\$ (0.52)
Basic and diluted weighted average number of common shares outstanding			
	35,528		35,528

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NaviSite, Inc.

Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

- 1** Historical financial statements agree to NaviSite's annual report on Form 10-K filed with the SEC on October 22, 2010, and reflects as discontinued operations the two assets sales concemented in fiscal year 2010; netASPx business and the two co-location data centers. See Footnote 5 to NaviSite's financial statements for further details concerning discontinued operations.
 - 2 Pro Forma Adjustments**
 - (a)** Net cash proceeds of \$7.9 million assumed to be used to pay down existing debt, as required under NaviSite's Amended Credit Agreement. NaviSite retained approximately \$2.6 million to be reinvested in future capital assets as permitted under the Amended Credit Agreement and \$0.9 million to pay out estimated liabilities relating to the sale including transaction fees and income taxes.
 - (b)** To eliminate substantially all historical assets and liabilities of the Business.
 - (c)** To account for estimated accrued liabilities related to the sale; including transaction related costs and income taxes payable on the gain on sale.
 - (d)** To reflect pay down of \$7.9 million in debt, as required under NaviSite's Amended Credit Agreement and eliminate deferred long term rent attributable to the Business.
 - (e)** To reflect transaction related gain, based upon management's estimated transaction related accruals and estimated income taxes payable.
 - (f)** To eliminate the historical revenues and expenses of the Business.
 - (g)** Impact of the reduction in Pro Forma interest expense for the period, as a result of assumed debt reduction.
 - (h)** To include the long term escrow receivable of \$1.3 million.
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(d) Exhibits

The exhibit listed in the Exhibit Index below is filed with this report.

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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 hereunto duly authorized.

NaviSite, Inc.

Date: December 22, 2010

By: /s/ James W. Pluntze
James W. Pluntze
Chief Financial Officer

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EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release of NaviSite, Inc. dated as of December 20, 2010.