

NAVISITE INC
Form PRER14C
November 26, 2004

Table of Contents

SCHEDULE 14C INFORMATION
Information Statement Pursuant to Section 14(c)
of the Securities Exchange Act of 1934

Check the appropriate box:

- Preliminary Information Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))
- Definitive Information Statement

NAVISITE, INC.

(Name of Registrant as Specified in Charter)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rule 14c-5(g) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

- Fee paid previously by written preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

NAVISITE, INC.

**400 Minuteman Road
Andover, Massachusetts 01810**

**NOTICE OF ACTION TAKEN PURSUANT TO
WRITTEN CONSENT OF STOCKHOLDERS**

To the stockholders of NaviSite, Inc.:

This Notice and the accompanying Information Statement are being furnished to the stockholders of NaviSite, Inc., a Delaware corporation (the Company), in connection with action taken by the holders of at least a majority of the issued and outstanding voting securities of the Company, approving, by written consent dated May 6, 2004, the following corporate actions:

1. The issuance of (i) 3,000,000 shares of the Company's Common Stock to Surebridge, Inc., and (ii) the shares of the Company's Common Stock issuable upon the conversion of convertible promissory notes made by the Company to Surebridge, Inc.; and
2. The amendment of the Company's Amended and Restated 2003 Stock Incentive Plan to increase the maximum number of shares of the Company's Common Stock available for issuance thereunder from 3,800,000 to 6,800,000 shares.

We are not asking you for a proxy and you are requested not to send us a proxy.

Your vote or consent is not requested or required to approve these matters. The accompanying Information Statement is provided solely for your information. The accompanying Information Statement also serves as the notice required by Section 228 of the Delaware General Corporation Law of the taking of a corporate action without a meeting by less than unanimous written consent of the stockholders of the Company.

By Order of the Board of Directors,

KENNETH DRAKE
Secretary

Andover, Massachusetts
December [], 2004

TABLE OF CONTENTS

NOTICE OF ACTION TAKEN PURSUANT TO WRITTEN CONSENT OF STOCKHOLDERS
INFORMATION STATEMENT
APPROVAL OF THE ISSUANCE OF THE FIXED SHARES AND THE CONVERSION SHARES
APPROVAL OF THE STOCK PLAN AMENDMENT
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
ADDITIONAL INFORMATION ABOUT NAVISITE
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
NAVISITE, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS
NAVISITE, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS
NAVISITE, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS EQUITY (DEFICIT)
NAVISITE, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS
NAVISITE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL
STATEMENT SCHEDULE
NaviSite, Inc. and Subsidiaries Valuation and Qualifying Accounts
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
OF OPERATIONS
Quantitative and Qualitative Disclosures About Market Risk

Table of Contents

Preliminary Copy

NAVISITE, INC.

**400 Minuteman Road
Andover, Massachusetts 01810**

INFORMATION STATEMENT

We are not asking you for a proxy and you are requested not to send us a proxy.

General

This Information Statement is being furnished by NaviSite, Inc., a Delaware corporation (NaviSite or the Company), in connection with action taken by the holders of at least a majority of the issued and outstanding voting securities of the Company, approving, by written consent dated May 6, 2004, the following corporate actions:

1. The issuance of (i) 3,000,000 shares of the Company s Common Stock, \$.01 par value per share (the Common Stock), to Surebridge, Inc., and (ii) the shares of the Company s Common Stock issuable upon the conversion of convertible promissory notes made by the Company to Surebridge, Inc.; and

2. The amendment of the Company s Amended and Restated 2003 Stock Incentive Plan to increase the maximum number of shares of the Company s Common Stock available for issuance thereunder from 3,800,000 to 6,800,000 shares.

This Information Statement is being provided pursuant to the requirements of Rule 14c-2 of the Securities Exchange Act of 1934, as amended (the Exchange Act), to inform holders of Common Stock entitled to vote or give an authorization or consent in regard to the matters acted upon by written consent. This Information Statement is being mailed on or about December [], 2004, to the Company s stockholders of record as of May 6, 2004 (the Record Date). The Company anticipates that the actions will take effect on December [], 2004.

All share numbers and share prices provided in this Information Statement have been adjusted to reflect all stock splits effected prior to the Record Date, including the 1-for-15 reverse stock split of the Common Stock effected on January 7, 2003.

Reason for the Written Consent

The Surebridge Acquisition

On June 10, 2004, the Company completed the acquisition of substantially all of the assets and liabilities of Surebridge, Inc. (Surebridge), a privately held provider of managed application services for mid-market companies, pursuant to the terms of an asset purchase agreement (as amended, the Asset Purchase Agreement). Surebridge, Inc. has since changed its name to Waythere, Inc. (Waythere).

Under the terms of the Asset Purchase Agreement, the Company acquired substantially all of the assets and liabilities of Surebridge in exchange for two promissory notes in the aggregate principal amount of approximately \$39.3 million, and three million shares of Common Stock (the Fixed Shares) at closing.

The promissory notes issued by the Company to Waythere consist of a Primary Note and an Escrow Note (collectively, the Notes). The Primary Note is in the principal amount of approximately

Table of Contents

\$32.5 million. The Escrow Note is in the principal amount of approximately \$6.8 million and has been deposited into escrow for the purpose of satisfying indemnification claims by the Company pursuant to the Asset Purchase Agreement. The principal amount of both Notes is subject to adjustment based on the net working capital of Surebridge at closing.

The Notes accrue interest on the unpaid balance at an annual rate of 10%, however no interest shall accrue on any principal paid within nine months of the closing. The Notes shall be paid in full no later than the second anniversary of the closing. In the event that the Company realizes net proceeds in excess of \$1 million from certain equity or debt financings or sales of assets, the Company is obligated to use a significant portion of the proceeds to make payments on the Notes.

The outstanding principal and accrued interest of the Notes shall be convertible into shares of Common Stock (the Conversion Shares) at the election of the holder (i) at any time following the first anniversary of the closing if the aggregate principal outstanding under the Notes at such time is greater than or equal to \$20 million, (ii) at any time following the 18-month anniversary of the closing if the aggregate principal outstanding under the Notes at such time is greater than or equal to \$10 million, (iii) at any time following the second anniversary of the closing, and (iv) at any time following an event of default thereunder. The conversion price of each Note is \$4.642, which is the average closing price of the Common Stock for the ten-day period ending one day prior to closing.

For a period of one year following the closing of the acquisition, Waythere shall not sell, transfer, assign, convey, encumber, gift, distribute or otherwise dispose of the Fixed Shares, the Conversion Shares or the Notes; provided, however, if the Company does not make certain payments under the Notes or otherwise suffers an event of default thereunder, Waythere may sell the Fixed Shares and the Conversion Shares at any time thereafter.

The Fixed Shares and the Conversion Shares have certain demand and piggyback registration rights pursuant to a Registration Rights Agreement entered into by and between the Company and Waythere.

The Stock Plan Amendment

On May 6, 2004, the Board of Directors of the Company approved, subject to stockholder approval, an amendment (the Stock Plan Amendment) to the Company's Amended and Restated 2003 Stock Incentive Plan, to increase the maximum number of shares of Common Stock pursuant to which the Company may grant stock options and restricted stock awards thereunder from 3,800,000 to 6,800,000 shares.

The Written Consent

On May 6, 2004, Atlantic Investors, LLC, the majority stockholder of the Company (Atlantic Investors), delivered to the Company an executed written consent of stockholders, in the form attached as Appendix I, approving (i) the issuance of the Fixed Shares and the Conversion Shares, and (ii) the Stock Plan Amendment.

Voting and Vote Required

The Company is not seeking consent, authorizations or proxies from you. Section 228 of the Delaware General Corporation Law (Section 228) provides that the written consent of the holders of outstanding shares of voting capital stock, having not less than the minimum number of votes which would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted, may be substituted for a meeting. Approval of at least a majority of the outstanding shares of Common Stock present and voting on the matter at a meeting would be required to approve each of (i) the issuance of the Fixed Shares and the Conversion Shares, and (ii) the Stock Plan Amendment.

As of the Record Date, the Company had 24,829,228 shares of Common Stock outstanding and entitled to vote. Each share of Common Stock is entitled to one vote. On the Record Date, Atlantic Investors held 17,292,550 shares, or approximately 69.6%, of the Company's Common Stock. Accordingly,

Table of Contents

the matters approved by Atlantic Investors by written consent on the Record Date have been approved under Section 228 and require no further stockholder action.

Notice Pursuant to Section 228

Pursuant to Section 228, the Company is also required to provide prompt notice of the taking of a corporate action by written consent to the stockholders who have not consented in writing to such action. This Information Statement also serves as the notice required by Section 228.

Dissenters' Rights of Appraisal

The Delaware General Corporation Law does not provide dissenters' rights of appraisal to the Company's stockholders in connection with the matters approved by written consent.

Householding of Stockholder Materials

Some banks, brokers and other nominee record holders may be participating in the practice of householding stockholder materials, such as proxy statements, information statements and annual reports. This means that only one copy of this Information Statement may have been sent to multiple stockholders in your household. The Company will promptly deliver a separate copy of this Information Statement to you if you write or call us at the following address or telephone number: Investor Relations Department, NaviSite, Inc., 400 Minuteman Road, Andover, Massachusetts 01810, telephone: (978) 682-8300. If you want to receive separate copies of stockholder materials in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker, or other nominee record holder, or you may contact NaviSite at the above address and telephone number.

APPROVAL OF THE ISSUANCE OF THE FIXED SHARES AND THE CONVERSION SHARES

The Surebridge Acquisition

On June 10, 2004, the Company completed the acquisition of substantially all of the assets and liabilities of Surebridge, a privately held provider of managed application services for mid-market companies. Under the terms of the Asset Purchase Agreement, the Company acquired substantially all of the assets and liabilities of Surebridge in exchange for two promissory notes in the aggregate principal amount of approximately \$39.3 million, and the Fixed Shares at closing.

The Primary Note is in the principal amount of approximately \$32.5 million. The Escrow Note is in the principal amount of approximately \$6.8 million and has been deposited into escrow for the purpose of satisfying indemnification claims by the Company pursuant to the Asset Purchase Agreement. The principal amount of both Notes is subject to adjustment based on the net working capital of Surebridge at closing. The Notes accrue interest on the unpaid balance at an annual rate of 10%, however no interest shall accrue on any principal paid within nine months of the closing. The Notes shall be paid in full no later than the second anniversary of the closing. In the event that the Company realizes net proceeds in excess of \$1 million from certain equity or debt financings or sales of assets, the Company is obligated to use a significant portion of the proceeds to make payments on the Notes.

The outstanding principal and accrued interest of the Notes shall be convertible into the Conversion Shares at the election of the holder (i) at any time following the first anniversary of the closing if the aggregate principal outstanding under the Notes at such time is greater than or equal to \$20 million, (ii) at any time following the 18-month anniversary of the closing if the aggregate principal outstanding under the Notes at such time is greater than or equal to \$10 million, (iii) at any time following the second anniversary of the closing, and (iv) at any time following an event of default thereunder. The conversion price of each Note is \$4.642, which is the average closing price of the Common Stock for the ten-day

Table of Contents

period ending one day prior to closing. Assuming no principal adjustments, prepayments or successful indemnification claims by the Company, the maximum number of Conversion Shares issuable upon conversion of the Notes at the maturity date is approximately 10,235,528 shares.

For a period of one year following the closing of the acquisition, Waythere shall not sell, transfer, assign, convey, encumber, gift, distribute or otherwise dispose of the Fixed Shares, the Conversion Shares or the Notes; provided, however, if the Company does not make certain payments under the Notes or otherwise suffers an event of default thereunder, Waythere may sell the Fixed Shares and the Conversion Shares at any time thereafter.

The Fixed Shares and the Conversion Shares have certain demand and piggyback registration rights pursuant to a Registration Rights Agreement entered into by and between the Company and Waythere.

Nasdaq Stockholder Approval Requirements

The Common Stock is listed on The Nasdaq SmallCap Market. The NASD rules governing Nasdaq require stockholder approval of any issuance of securities (i) in connection with the acquisition of the stock or assets of another company that will or potentially will result in the issuance of shares representing 20% or more of the issuer's outstanding shares of common stock or voting power prior to the issuance of such securities, or (ii) that will or potentially will result in a change of control of the issuer.

Specifically, NASD Rule 4350(i)(1)(C) requires that the issuer of stock in connection with the acquisition of the stock or assets of another company secure stockholder approval prior to an issuance where the issuance or potential issuance of the shares of common stock, or securities convertible into or exercisable for common stock, would result in the issuance of 20% or more of the common stock or voting power of the issuer before the issuance. In addition, NASD Rule 4350(i)(1)(B) requires that the issuer of stock secure stockholder approval prior to an issuance or potential issuance which will result in a change of control of the issuer.

Nasdaq rules do not require stockholder approval of the acquisition of the assets and liabilities of Surebridge by the Company or the issuance of the Fixed Shares or the Notes. However, the potential issuance of the Conversion Shares upon conversion of the Notes, when added to the issuance of the Fixed Shares, would potentially equal or exceed the 20% threshold and could potentially be deemed a change of control of the Company under applicable Nasdaq rules. Therefore, for purposes of the applicable Nasdaq rules, the Company's stockholders approved the issuance of the Fixed Shares and the Conversion Shares prior to any issuance which would equal or exceed the 20% threshold or be deemed a change of control of the Company.

On May 6, 2004, Atlantic Investors delivered to the Company an executed written consent of stockholders approving the issuance of the Fixed Shares and the Conversion Shares. This Information Statement is being sent to all stockholders of the Company as notice that such action has been taken. The Company is not asking that you vote to approve the issuance of the Fixed Shares and the Conversion Shares. Under federal law governing the taking of stockholder action by written consent, stockholder approval of the issuance of the Fixed Shares and the Conversion Shares will be deemed effective 20 days after the mailing of this Information Statement to stockholders of the Company. Pursuant to the terms of the Asset Purchase Agreement, the Notes shall not be convertible into an aggregate number of shares of Common Stock that is greater than or equal to (i) 19.9% of that number of shares of Common Stock outstanding immediately prior to the closing less (ii) 3,000,000 shares, unless and until such stockholder approval is deemed effective.

Table of Contents

APPROVAL OF THE STOCK PLAN AMENDMENT

On May 6, 2004, the Board of Directors of the Company approved, subject to stockholder approval, an amendment to the Company's Amended and Restated 2003 Stock Incentive Plan (as amended, the "2003 Plan"), to increase the maximum number of shares of Common Stock pursuant to which the Company may grant stock options and restricted stock awards thereunder from 3,800,000 to 6,800,000 shares. The Board adopted the Stock Plan Amendment because the number of shares currently available under the 2003 Plan is insufficient to satisfy the expected foreseeable future share requirements thereunder. The Board of Directors believes that continued grants of stock options, as well as grants of restricted stock awards, will be an important element in attracting and retaining key employees who are expected to contribute to the Company's growth and success. NaviSite's management relies on stock options as essential parts of the compensation packages necessary for NaviSite to attract and retain experienced officers and employees. As of May 6, 2004 and following approval by the stockholders of the Stock Plan Amendment, 3,017,691 shares were available for issuance under the 2003 Plan. The closing price of NaviSite Common Stock on May 6, 2004 was \$5.20.

Summary of the 2003 Plan

The 2003 Plan was adopted, subject to stockholder approval, by NaviSite's Board of Directors on July 10, 2003, and amended and restated on November 11, 2003 to increase the number of shares of Common Stock available for issuance under such plan from 2,600,000 to 3,800,000. The 2003 Plan was approved by the stockholders of the Company on December 9, 2003 at the Annual Meeting of Stockholders. The 2003 Plan provides for the grant of options that are intended to qualify as incentive stock options within the meaning of Section 422 of the Code, options not intended to qualify as incentive stock options and restricted stock awards (each, an "Award") to NaviSite's employees, officers and directors, consultants or advisors. Incentive stock options may be granted only to employees of NaviSite. A maximum of 6,800,000 shares of Common Stock are eligible for issuance under the 2003 Plan upon the exercise of options or in connection with Awards. If any Award expires, or is terminated, surrendered or canceled without having been fully exercised or forfeited, in whole or in part (including as a result of shares of Common Stock being repurchased by NaviSite at the original issue price pursuant to a contractual repurchase right), or results in the Common Stock not being issued, the unissued Common Stock covered by such Award shall again be available for the grant of Awards under the 2003 Plan.

Table of Contents

As of May 6, 2004, approximately 397 persons were eligible to receive Awards under the 2003 Plan, including the Company's five executive officers and three non-employee directors. As of October 31, 2004, approximately 517 persons were eligible to receive Awards under the 2003 Plan, including the Company's five executive officers and three non-employee directors. The granting of Awards under the 2003 Plan is discretionary, and the Company cannot now determine the number or type of Awards to be granted in the future to any particular person or group of persons. The following table summarizes options awarded under the 2003 Plan (excluding the Stock Plan Amendment) and under the Stock Plan Amendment as of October 31, 2004 to designated individuals and groups since the adoption of the 2003 Plan in July 2003:

Name and Principal Position	Number of Options Granted under the 2003 Plan	Number of Options Granted under the Stock Plan Amendment
Arthur P. Becker Chief Executive Officer and President	460,000	0
Gabriel Ruhan Chief Operating Officer	460,000	0
James Pluntze Former Chief Financial Officer	43,125	16,875
Kenneth Drake General Counsel and Secretary	60,000	0
Current Executive Officers, as a group	1,230,000	0
Current Non-Executive Officer Directors, as a group	170,000	0
Current Non-Executive Officer Employees, as a group	1,679,525	1,700,375

The purpose of the 2003 Plan is to provide Awards to employees, officers, directors, consultants and advisors of NaviSite and its present or future parent or subsidiary corporations (each a Participant), all of whom are eligible to receive Awards under the 2003 Plan. A copy of the 2003 Plan is attached to this Information Statement as Appendix II. The following is a summary of the 2003 Plan and should be read together with the 2003 Plan. The summary is qualified in its entirety by reference to the 2003 Plan.

Administration. The 2003 Plan is administered by the Board of Directors. The Board of Directors has the power to grant Awards and to adopt, amend and repeal such administrative rules, guidelines and practices relating to the 2003 Plan as it may deem advisable. The Board of Directors may correct any defect, supply any omission or reconcile any inconsistency in the 2003 Plan or any Award in the manner and to the extent it shall deem expedient to carry the 2003 Plan into effect and it shall be the sole and final judge of such expediency. All decisions by the Board shall be made in the Board's sole discretion and shall be final and binding on all persons having or claiming any interest in the Plan or in any Award. The Board may delegate its powers to one or more committees of the Board or to one or more executive officers of NaviSite (provided, that the Board of Directors shall fix the terms of the Awards granted by the executive officer and the maximum number of shares that the executive officer may grant and that no executive officer shall have the power to grant Awards to another executive officer (as defined in Rule 3b-7 of the Exchange Act, or to any officer (as defined in Rule 16a-1 of the Exchange Act) of NaviSite).

Per-Participant Limit. No Participant may be granted Awards during any one calendar year to purchase more than 650,000 shares of Common Stock.

Exercise Price. The Board establishes the exercise price at the time each option is granted.

Exercise of Options. Each option granted under the 2003 Plan shall either be fully exercisable at the time of grant or shall become exercisable in such installments as the Board may specify. Once an installment becomes exercisable it shall remain exercisable until expiration or termination of the option, unless otherwise specified by the Board. Each option or installment may be exercised at any time or from

Table of Contents

time to time, in whole or in part, for up to the total number of shares with respect to which it is then exercisable. During the Participant's lifetime, Awards may be exercised only by the Participant.

Payment for Exercise of Options. Payment for the exercise of options under the 2003 Plan may be made by one or any combination of the following forms of payment (a) by cash or check payable to the order of NaviSite; (b) except as otherwise explicitly provided in the applicable option agreement, by delivery of an irrevocable and unconditional undertaking by a creditworthy broker to deliver promptly to NaviSite sufficient funds to pay the exercise price or any required tax withholding, or delivery by the Participant to NaviSite of a copy of irrevocable and unconditional instructions to a creditworthy broker to deliver promptly to NaviSite cash or a check sufficient to pay the exercise price and any required tax withholding; (c) when the Common Stock is registered under the Exchange Act, by delivery of shares of Common Stock owned by the Participant valued at fair market value (as determined by or in a manner approved by the Board) provided that such method of payment is then permitted by law and such Common Stock, if acquired directly from NaviSite, was owned by the Participant for at least six months; or (d) to the extent permitted by the Board, (x) by delivery of a promissory note of the Participant to NaviSite (on terms determined by the Board) or (y) payment of such other lawful consideration as the Board may determine.

Transferability. Except as otherwise provided in the applicable option agreement, options are not transferable except by will or by the laws of descent and distribution.

Restricted Stock. The Board may grant Awards entitling recipients to acquire shares of Common Stock, subject to the right of NaviSite to repurchase all or part of such shares at their issue price or other stated or formula price from the Participant in the event that conditions specified by the Board in the applicable Award are not satisfied prior to the end of the applicable restriction period or periods established by the Board for such Award.

Acquisition of NaviSite. Upon the occurrence of a Reorganization Event (as defined below) or the execution by NaviSite of any agreement with respect to any Reorganization event, the Board shall provide that all outstanding options outstanding under the 2003 Plan shall be assumed, or equivalent options shall be substituted, by the acquiring or succeeding corporation (or an affiliate thereof). If the acquiring or succeeding corporation (or an affiliate thereof) does not agree to assume, or substitute for, such options, then all then unexercised options will become exercisable in full as of a time specified by the Board prior to the Reorganization Event and will terminate immediately prior to the consummation of such Reorganization Event; provided, however, that in the event of a Reorganization Event under the terms of which holders of Common Stock will receive a cash payment for each share of Common Stock surrendered pursuant to such Reorganization Event (the Acquisition Price), then the Board may instead provide that all outstanding options outstanding under the 2003 Plan shall terminate upon consummation of such Reorganization Event and that each optionholder shall receive, in exchange therefor, a cash payment equal to the amount (if any) by which (A) the Acquisition Price multiplied by the number of shares of Common Stock subject to such outstanding options (whether or not then exercisable), exceeds (B) the aggregate exercise price of such options.

Upon the occurrence of a Reorganization Event, the repurchase and other rights of NaviSite under each outstanding restricted stock award shall inure to the benefit of NaviSite's successor and shall apply to the cash, securities or other property which the Common Stock was converted into or exchanged for pursuant to such Reorganization Event in the same manner and to the same extent as they applied to the Common Stock subject to such restricted stock award. Reorganization Event is defined in the 2003 Plan as follows: (a) any merger or consolidation of NaviSite with or into another entity as a result of which all of the Common Stock of NaviSite is converted into or exchanged for the right to receive cash, securities or other property or (b) any exchange of all of the Common Stock of NaviSite for cash, securities or other property pursuant to a share exchange transaction.

Effect of Termination, Disability or Death. The Board determines the effect on an Award of the disability, death, retirement, authorized leave of absence or other change in the employment or other status of a Participant and the extent to which, and the period during which, the Participant, or the

Table of Contents

Participant's legal representative, conservator, guardian or designated beneficiary, may exercise rights under the Award.

Amendment of Award. The Board of Directors may amend, modify or terminate any outstanding Award, including but not limited to, by substituting therefor another Award of the same or a different type, changing the date of exercise or realization, and converting an ISO (as defined below) to a non-qualified stock option, provided that the Participant's consent to such action shall be required unless the Board of Directors determines that the action, taking into account any related action, would not materially and adversely affect the Participant.

Termination and Amendment of Plan. The Board may amend, suspend or terminate the 2003 Plan or any portion thereof at any time. Unless terminated sooner, no Awards may be granted under the 2003 Plan after July 9, 2013, but Awards previously granted may extend beyond that date.

United States Federal Income Tax Consequences

THE FOLLOWING DISCUSSION OF UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE ISSUANCE AND EXERCISE OF OPTIONS GRANTED UNDER THE 2003 PLAN IS BASED UPON THE PROVISIONS OF THE INTERNAL REVENUE CODE AS IN EFFECT ON THE DATE OF THIS INFORMATION STATEMENT, CURRENT REGULATIONS, AND EXISTING ADMINISTRATIVE RULINGS OF THE INTERNAL REVENUE SERVICE. THIS DISCUSSION IS NOT INTENDED TO BE A COMPLETE DISCUSSION OF ALL OF THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE 2003 PLAN OR OF THE REQUIREMENTS THAT MUST BE MET IN ORDER TO QUALIFY FOR THE DESCRIBED TAX TREATMENT.

Incentive Stock Options (ISOs). The following general rules are applicable under current United States federal income tax law to ISOs granted under the 2003 Plan:

1. In general, an optionee will not recognize any taxable income upon the grant of an ISO or upon the issuance of shares to him or her upon the exercise of an ISO, and NaviSite will not be entitled to a federal income tax deduction upon either the grant or the exercise of an ISO.
2. If shares acquired upon exercise of an ISO are not disposed of within (i) two years from the date the ISO was granted or (ii) one year from the date the shares are issued to the optionee pursuant to the exercise of the ISO (the Holding Periods), the difference between the amount realized on any subsequent disposition of the shares and the exercise price generally will be treated as capital gain or loss to the optionee.
3. If shares acquired upon exercise of an ISO are disposed of and the optionee does not satisfy the Holding Periods (a Disqualifying Disposition), then in most cases the lesser of (i) any excess of the fair market value of the shares at the time of exercise of the ISO over the exercise price or (ii) the actual gain on disposition, will be treated as compensation to the optionee and will be taxed as ordinary income in the year of such disposition.
4. The difference between the amount realized by an optionee as the result of a Disqualifying Disposition and the sum of (i) the exercise price and (ii) the amount of ordinary income recognized under the above rules generally will be treated as capital gain or loss to the optionee.
5. In any year that an optionee recognizes ordinary income on a Disqualifying Disposition of shares acquired upon exercise of an ISO, NaviSite generally will be entitled to a corresponding federal income tax deduction.
6. An optionee may be entitled to exercise an ISO by delivering shares of NaviSite Common Stock to NaviSite in payment of the exercise price, if the optionee's ISO agreement so provides. If an optionee exercises an ISO in such fashion, special rules will apply.

Table of Contents

7. In addition to the tax consequences described above, the exercise of an ISO may result in an alternative minimum tax to the optionee. In general, the amount by which the fair market value of the shares received upon exercise of the ISO exceeds the exercise price is included in the optionee's alternative minimum taxable income. A taxpayer is required to pay the greater of his regular tax liability or the alternative minimum tax. A taxpayer who pays alternative minimum tax attributable to the exercise of an ISO may be entitled to a tax credit against his or her regular tax liability in later years.
8. Capital gain or loss recognized by an optionee on a disposition of shares will be long-term capital gain or loss if the optionee's holding period for the shares exceeds one year.
9. Special rules apply if the shares acquired upon the exercise of an ISO are subject to vesting, or are subject to certain reporting requirements and restrictions on resale under federal securities laws applicable to directors, certain officers or 10% stockholders.

Non-Qualified Options. The following general rules are applicable under current United States federal income tax law to Non-Qualified Options granted under the 2003 Plan:

1. In general, an optionee will not recognize any taxable income upon the grant of a Non-Qualified Option, and NaviSite will not be entitled to a federal income tax deduction upon such grant.
2. An optionee generally will recognize ordinary income at the time of exercise of the Non-Qualified Option in an amount equal to the excess, if any, of the fair market value of the shares on the date of exercise over the exercise price. NaviSite may be required to withhold tax on this amount.
3. When an optionee sells the shares acquired upon the exercise of a Non-Qualified Option, he or she generally will recognize capital gain or loss in an amount equal to the difference between the amount realized upon the sale of the shares and his or her basis in the shares (generally, the exercise price plus the amount taxed to the optionee as ordinary income). If the optionee's holding period for the shares exceeds one year, such gain or loss will be a long-term capital gain or loss.
4. When an optionee recognizes ordinary income attributable to a Non-Qualified Option, NaviSite generally should be entitled to a corresponding federal income tax deduction.
5. An optionee may be entitled to exercise a Non-Qualified Option by delivering shares of NaviSite Common Stock to NaviSite in payment of the exercise price, if the optionee's option agreement so provides. If an optionee exercises a Non-Qualified Option in such fashion, special rules will apply.
6. Special rules apply if the shares acquired upon the exercise of a Non-Qualified Option are subject to vesting, or are subject to certain reporting requirements and restrictions on resale under federal securities laws applicable to directors, certain officers or 10% stockholders.

Restricted Stock Awards. The following general rules are applicable under current United States federal income tax law to Awards comprised of restricted Common Stock under the 2003 Plan:

Persons receiving restricted Common Stock under the under the 2003 Plan pursuant to Awards generally will not recognize taxable income upon the grant of the Award, unless the Participant makes an election under Section 83(b) of the Code (an 83(b) Election). If the Participant makes an 83(b) Election within 30 days of the date of grant, the Participant will recognize ordinary income, for the year the Award is granted, in an amount equal to the difference between the fair market value of the shares received (determined on the date of the Award) over the purchase price. If an 83(b) Election is not made, then the Participant will recognize ordinary income, at the time that the forfeiture provisions or restrictions on transfer lapse, in an amount equal to the difference between the fair market value of the Common Stock at the time of such lapse and the original purchase price paid for the Common Stock. The Participant will have a tax basis in the Common Stock acquired equal to the sum of the price paid and the amount of ordinary income recognized.

Table of Contents

Upon the disposition of the Common Stock acquired pursuant to a restricted stock Award, the Participant will recognize capital gain or loss equal to the difference between the sale price of the Common Stock and the Participant's basis in the Common Stock. The capital gain or loss will be a long-term capital gain or loss if the shares are held for more than one year.

Equity Compensation Plan Information as of July 31, 2004

The following table sets forth certain information regarding NaviSite's equity compensation plans as of July 31, 2004. Pursuant to the rules of the Securities and Exchange Commission, the following table excludes the 3,000,000 shares subject to the Stock Plan Amendment.

Plan Category	(a) Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	3,730,713	\$7.10	159,634
Equity compensation plans not approved by security holders		\$	
Total	3,730,713		159,634

On May 6, 2004, Atlantic Investors delivered to the Company an executed written consent of stockholders approving the Stock Plan Amendment. This Information Statement is being sent to all stockholders of the Company as notice that such action has been taken. The Company is not asking that you vote to approve the Stock Plan Amendment. Under federal law governing the taking of stockholder action by written consent, stockholder approval of the Stock Plan Amendment will be deemed effective 20 days after the mailing of this Information Statement to stockholders of the Company.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of September 30, 2004 (unless otherwise indicated), with respect to the beneficial ownership of Common Stock by the following:

each person known by the Company to beneficially own more than 5% of the outstanding shares of Common Stock;

each of the Company's directors;

each of the Named Executive Officers (as defined below under the heading "Executive Compensation");

one additional executive officer of the Company; and

all of the current executive officers and directors as a group.

Table of Contents

For purposes of the following table, beneficial ownership is determined in accordance with the rules promulgated by the Securities and Exchange Commission and the information is not necessarily indicative of beneficial ownership for any other purpose. Except as otherwise noted in the footnotes to the table, the Company believes that each person or entity named in the table has sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them (or shares such power with his or her spouse). Under such rules, shares of Common Stock issuable under options that are currently exercisable or exercisable within 60 days after September 30, 2004 (Presently Exercisable Options) are deemed outstanding and are included in the number of shares beneficially owned by a person named in the table and are used to compute the percentage ownership of that person. These shares are not, however, deemed outstanding for computing the percentage ownership of any other person or entity. Unless otherwise indicated, the address of each person listed in the table is c/o NaviSite, Inc., 400 Minuteman Road, Andover, Massachusetts 01810.

The percentage ownership of Common Stock of each person or entity named in the following table is based on 27,928,724 shares of Common Stock outstanding as of September 30, 2004 plus any shares subject to Presently Exercisable Options held by such person.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	
	Number of Shares	Percentage of Class
5% Stockholders		
Atlantic Investors, LLC 20 East 66th Street New York, NY 10021	17,121,652(1)	61.3%
Hewlett-Packard Financial Services Company 420 Mountain Avenue Murray Hill, NJ 07974	4,416,592(2)	15.8%
Waythere, Inc.(3) c/o BG Affiliates One Beacon Street Suite 1500 Boston, MA 02108	3,000,000	10.7%
Directors and Named Executive Officers		
Andrew Ruhan	(4)	*
Arthur P. Becker	446,400(5)	1.6%
Gabriel Ruhan	233,333(6)	*
Larry Schwartz	35,554(6)	*
James Dennedy	39,721(6)	*
Thomas R. Evans	18,055(6)	*
James Pluntze	49,791(6)(7)	*
Kenneth Drake	43,333(6)	*
Other Executive Officers		
John J. Gavin, Jr.	54,166(8)	*
All current executive officers and director as a group	870,562(9)	3.0%

* Less than 1%.

- (1) Based on information provided by Atlantic Investors, LLC in a Form 4 dated July 28, 2004 filed with the Securities and Exchange Commission on July 30, 2004. Atlantic Investors, LLC is controlled by two managing members, Unicorn Worldwide Holdings Limited and Madison Technology LLC. Unicorn Worldwide Holdings Limited is jointly controlled by its Board members, Simon Cooper and Simon McNally. Mr. Becker is the managing member of Madison Technology LLC. Messrs. Cooper and McNally

Table of Contents

for Unicorn Worldwide Holdings Limited and Mr. Becker for Madison Technology LLC share voting and investment power over the securities held by Atlantic Investors, LLC. Mr. A. Ruhan holds a 10% equity interest in Unicorn Worldwide Holdings Limited, a managing member of Atlantic Investors, LLC. Atlantic Investors, LLC has informed us that the 17,121,652 shares of our common stock it holds is currently its sole investment.

- (2) These shares are held of record by Hewlett-Packard Financial Services Company, a wholly owned subsidiary of Hewlett-Packard Company, a widely held publicly traded company. Hewlett-Packard Company and Hewlett-Packard Financial Services Company may each be deemed the beneficial owner of these shares.
- (3) Formerly known as Surebridge, Inc.
- (4) Excludes 17,121,652 shares of Common Stock owned by Atlantic Investors, LLC and 426,134 shares of Common Stock owned by Global Unicorn Worldwide Holdings S.A.R.L., a wholly owned subsidiary of Unicorn Worldwide Holdings Limited, with respect to all of which Mr. A. Ruhan disclaims beneficial ownership. Mr. A. Ruhan holds a 10% equity interest in Unicorn Worldwide Holdings Limited, a managing member of Atlantic Investors, LLC.
- (5) Consists of 213,067 shares of Common Stock owned by Madison Technology LLC and 233,333 shares of Common Stock issuable upon the exercise of Presently Exercisable Options. Excludes 17,121,652 shares of Common Stock owned by Atlantic Investors, LLC with respect to which Mr. Becker disclaims beneficial ownership. Mr. Becker is the managing member of Madison Technology LLC, a managing member of Atlantic Investors, LLC.
- (6) Consists of shares of Common Stock issuable upon the exercise of Presently Exercisable Options.
- (7) Served as NaviSite's Chief Financial Officer until May 2004.
- (8) Consists of shares of Common Stock issuable upon the exercise of Presently Exercisable Options. Mr. Gavin became our Chief Financial Officer on May 6, 2004.
- (9) Consists of 213,067 shares of Common Stock owned by Madison Technology LLC and 657,495 shares of Common Stock issuable upon the exercise of Presently Exercisable Options. Excludes 17,121,652 shares of Common Stock owned by Atlantic Investors, LLC with respect to which Messrs. A. Ruhan and Becker disclaim beneficial ownership, and 426,134 shares of Common Stock owned by Global Unicorn Worldwide Holdings S.A.R.L., a wholly owned subsidiary of Unicorn Worldwide Holdings Limited, with respect to which Mr. A. Ruhan disclaims beneficial ownership. Mr. A. Ruhan holds a 10% equity interest in Unicorn Worldwide Holdings Limited, a managing member of Atlantic Investors, LLC, and Mr. Becker is the managing member of Madison Technology LLC, a managing member of Atlantic Investors, LLC.

ADDITIONAL INFORMATION ABOUT NAVISITE

Director Compensation

The Board of Directors has adopted a policy (i) to grant to future independent directors upon initial election to the Board options to purchase 50,000 shares of NaviSite Common Stock and (ii) that any independent director be paid \$7,500 per year, payable in quarterly installments. The initial option grant of 50,000 shares of NaviSite Common Stock will vest monthly over three years (1/36th of the number of shares vest monthly). Additionally, upon re-election to the Board of Directors, independent directors of the Board of Directors will be granted an annual option to purchase 15,000 shares of NaviSite Common Stock. The annual option grant of 15,000 shares vests monthly over a period of 12 months. The Chairperson of each of the Audit Committee and the Compensation Committee also will receive, upon re-election to the Board of Directors at each annual meeting of stockholders, an option to purchase 10,000 shares of NaviSite Common Stock. This annual option grant of 10,000 shares of NaviSite Common Stock vests monthly over a period of 12 months.

During the 2004 fiscal year, Messrs. A. Ruhan, G. Ruhan and Becker were not paid for service on the Board of Directors. In October 2004 Messrs. Dennedy, Evans and Schwartz each received \$5,625 for service on the Board of Directors since December 9, 2003, of which approximately \$4,700 was for service

Table of Contents

during the 2004 fiscal year. On December 9, 2003, each of Messrs. Dennedy and Schwartz was granted an option to purchase 50,000 shares of Common Stock at an exercise price of \$2.55 per share and an option to purchase 10,000 shares of Common Stock at an exercise price of \$8.40 per share. On December 9, 2003, Mr. Evans was granted an option to purchase 50,000 shares of Common Stock at an exercise price of \$3.53 per share. On December 9, 2003, Messrs. G. Ruhan and Becker were each granted an option to purchase 60,000 shares of Common Stock at an exercise price of \$2.55 per share, and on January 30, 2004, Messrs. G. Ruhan and Becker were each granted an option to purchase 400,000 shares of Common Stock at an exercise price of \$5.41 per share.

Apart from the arrangements discussed above, NaviSite does not pay any cash compensation to members of its Board of Directors for their services as members of the Board of Directors, although directors are reimbursed for their reasonable travel expenses incurred in connection with attending Board of Directors and committee meetings. Directors who are also NaviSite officers or employees are eligible to participate in the 2003 Plan.

NaviSite and each member of the Board of Directors have entered into an indemnification agreement pursuant to which the directors will be indemnified by NaviSite, subject to certain limitations, for any liabilities incurred by the directors in connection with their role as directors of NaviSite.

Executive Compensation

Summary Compensation

The following table sets forth certain summary information with respect to the compensation paid during the fiscal years ended July 31, 2004 and 2003 earned by each of (i) all individuals who served as the Chief Executive Officer during the fiscal year ended July 31, 2004, (ii) one former executive officer who would have been among the most highly compensated executive officers during fiscal year 2004 had he remained as an executive officer as of July 31, 2004, and (iii) two other executive officers who were serving as executive officers on July 31, 2004 whose total annual salary and bonuses for fiscal year 2004 exceeded \$100,000 (collectively, the Named Executive Officers). None of the Named Executive Officers served with NaviSite prior to fiscal year 2003. Mr. Drake commenced employment with NaviSite in September 2003. In the table below, columns required by the regulations of the SEC have been omitted where no information was required to be disclosed under those columns.

Table of Contents**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation	
		Salary (\$)	Bonus (\$)	Awards	
				Securities Underlying Options	All Other Compensation (\$)
Arthur P. Becker	2004	275,000		460,000	
Chief Executive Officer and President	2003	121,635		40,000	
Gabriel Ruhan	2004	250,000		460,000	40,799(1)
Chief Operating Officer	2003	205,769		40,000	
James Pluntze	2004	166,058		43,125	
Former Chief Financial Officer	2003	48,075	4,850	40,000	