

NAVISITE INC
Form S-2/A
March 28, 2005

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As filed with the Securities and Exchange Commission on March 28, 2005

Registration Statement No. 333-112087

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 4

to

Form S-2

**REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

NaviSite, Inc.

(Exact name of Registrant as specified in its charter)

Delaware

*(State or Other Jurisdiction of
Incorporation or Organization)*

52-2137343

*(I.R.S. Employer
Identification Number)*

**400 Minuteman Road
Andover, Massachusetts 01810
(978) 682-8300**

(Address, Including Zip Code, and Telephone Number Including Area Code, of Registrant's Principal Executive Offices)

**Arthur P. Becker
Chief Executive Officer and President
NaviSite, Inc.
400 Minuteman Road
Andover, Massachusetts 01810
(978) 682-8300**

(Name, Address, Including Zip Code, and Telephone Number Including Area Code, of Agent for Service)

Copies to:

Thomas B. Rosedale

**Kevin P. Lanouette
Browne Rosedale & Lanouette LLP
31 St. James Avenue, Suite 850
Boston, MA 02116
(617) 399-6931**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 of the Securities Act of 1933, check the following box.

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If the registrant elects to deliver its latest annual report to security holders, or a complete and legible facsimile thereof, pursuant to Item 11(a)(1) of this Form, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, please check the following box and list the Securities Act of 1933 registration statement number of the earlier effective registration statement for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act of 1933 registration statement number of the earlier effective registration statement for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act of 1933 registration statement number of the earlier effective registration statement for the same offering. _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock, par value \$.01 per share	5,000,000	\$6.50	\$32,500,000	\$3,825.25(2)

(1) Estimated pursuant to Rule 457(c) solely for the purpose of computing the amount of the registration fee, and based on the average of the high and low prices of the Company's Common Stock on the Nasdaq SmallCap Market on January 16, 2004.

(2) A registration fee of \$5,406.07 was previously paid in connection with the initial filing of this Registration Statement and Amendment No. 3 hereto, covering an aggregate of 10,350,000 shares. This Amendment No. 4 to the Registration Statement is being filed, among other things, to reduce the number of shares being registered hereby to 5,000,000 shares.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 28, 2005

**5,000,000 Shares
Common Stock**

NaviSite, Inc. is selling 5,000,000 shares of common stock. [] has agreed to act as placement agent in connection with the offering and will use its best efforts to introduce us to investors. The placement agent has no commitment to buy any of the shares. The shares of common stock covered by this prospectus are being offered and sold only to qualified institutional buyers as defined by the Securities and Exchange Commission, and to other qualified purchasers as determined by the Company. The offer of shares is not being made in any jurisdiction to any person if the offer to, or acceptance by, the person would not be in compliance with the securities or blue sky laws of that jurisdiction.

Our common stock is traded on the Nasdaq SmallCap Market under the symbol NAVI. On March 24, 2005, the last reported sale price for our common stock was \$1.70 per share.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE RISK FACTORS BEGINNING ON PAGE 7.

	Per Share	Maximum Offering
Public offering price	\$	\$
Placement agent fee	\$	\$
Proceeds, before expenses, to us ⁽¹⁾	\$	\$

(1) Expenses estimated to be \$850,000, all of which will be paid by us.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2005

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell shares of common stock and seeking offers to buy shares of common stock only in jurisdictions where offers and sales are permitted. We are offering shares only to qualified institutional buyers (as defined by the Securities and Exchange Commission) and to other qualified purchasers, as we so determine. The information contained in this prospectus is accurate only as to the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of common stock.

In this prospectus we, us and our refer to NaviSite, Inc. and its subsidiaries.

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PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information and consolidated financial statements and related notes thereto appearing elsewhere in this prospectus and in the documents incorporated by reference in this prospectus. You should read the entire prospectus, including the documents incorporated by reference in this prospectus, before you invest in our common stock. This prospectus contains forward-looking statements. The outcome of the events described in these forward-looking statements is subject to risks, and actual results could differ materially. Read this entire prospectus carefully, especially the risks described under Risk Factors.

Our Business

We provide managed IT services to middle-market organizations, which include mid-sized companies, divisions of large multi-national companies and government agencies. Our service offerings allow our customers to outsource the management of their information technology applications and infrastructure, such as commerce systems, enterprise software applications and e-mail. We offer services that are designed to focus on the needs of middle-market organizations, where we believe the need for outsourcing is most acute. We believe that by using our services, our customers are able to focus on, and apply resources to, their core business operations by avoiding the significant ongoing investments required to replicate our infrastructure, performance, reliability and expertise.

We currently operate in 14 data centers in the United States and one data center in the United Kingdom. We believe that our data centers and infrastructure have the capacity necessary to expand our business for the foreseeable future. Our services combine our developed infrastructure with established processes and procedures for delivering managed IT services. Our high availability infrastructure, high performance monitoring systems, and proactive and collaborative problem resolution systems are designed to identify and address potentially crippling problems before they are able to disrupt customers' operations.

We currently service approximately 1,100 customers, including approximately 115 customers through our sales channel relationships. Our customers typically enter into service agreements with us for a term of one to three years, which provide for monthly payment installments, providing us with a base of recurring revenue. Our revenue increases by adding new customers or additional services to existing customers. Our overall base of recurring revenue is affected by new customers, renewals and terminations of agreements with existing customers.

Since September 2002, we have completed six acquisitions. As a result, we believe we have developed a disciplined acquisition strategy and significant integration expertise that will allow us to further expand our service offering, grow our customer base and improve our overall profitability. As of January 31, 2005, we had incurred losses since our incorporation resulting in an accumulated deficit of approximately \$451.1 million. During the fiscal quarter ended January 31, 2005, we had a net loss of approximately \$4.6 million and for the six months ended January 31, 2005 we had a net loss of approximately \$11.2 million.

The audit report on our fiscal year 2004 consolidated financial statements from KPMG LLP, our independent registered public accounting firm, contains KPMG's opinion that our recurring losses from operations since inception and accumulated deficit, as well as other factors, raise substantial doubt about our ability to continue as a going concern.

Our Services

We offer a broad range of managed IT services that can be deployed quickly and cost-effectively. We specialize in developing, deploying and managing information technology infrastructure and applications for our customers. Since 1999, we have invested approximately \$56 million in our operating

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platform and automation capabilities and have refined our processes over time across a large base of customers. Our services include:

Managed Application Services

Implementation and operational management of packaged applications including Oracle Enterprise, Enterprise One and E-Business Suite, Siebel CRM, Microsoft Business Solutions (Great Plains, Solomon, CRM), and custom e-Commerce systems

Software On Demand services using our NaviView collaborative application management system

Electronic Software Distribution using our content distribution platform

Managed Infrastructure Services

Managed hosting and data center services

Content Distribution and Acceleration

Colocation

Security

Bandwidth

We are a Microsoft Gold Certified Partner, an Oracle Certified Partner, an Oracle reseller of JD Edwards EnterpriseOne and World software solutions, a Certified PeopleSoft hosting partner and a Siebel Reseller Partner. We support a broad portfolio of outsourced application services including financial management, supply chain management, human resources management and customer relationship management. We provide these services to a range of vertical industries through our direct sales force and channel relationships. The vertical industries we target include finance, healthcare, manufacturing and distribution, and communications and media.

Our application support and software on demand services are facilitated by our proprietary NaviView collaborative application management platform. This platform enables us to provide highly efficient, effective and customized management of enterprise applications and information technology. Comprised of a suite of third-party and proprietary products, NaviView provides tools designed specifically to meet the needs of customers who outsource or want to provide on-demand application services. This platform is also used for electronic software distribution for software vendors.

We believe that the combination of NaviView with our physical infrastructure and technical staff gives us a unique ability to provision on-demand application services for software providers for use by their customers. Because this on-demand provisioning capability is not dependent on the individual software application, NaviView is application and operating platform neutral. Designed to enable enterprise software applications to be provisioned and used as an on-demand solution, the NaviView technology allows us to offer new solutions to our software vendors and new products to our current customers.

Our Industry

Many businesses are deploying Internet-enabled applications to enhance their core business operations, increase efficiency and remain competitive. The proliferation of these applications has created a strong demand for specialized information technology support and application expertise. The trend towards outsourced hosting and management of Internet-enabled applications is driven by the need to improve reliability and overall performance of the applications, the need to focus on core business operations, and the complexity and cost of managing the applications.

Notwithstanding increasing demand for these services, we believe the number of providers of outsourced application hosting and management services has decreased over the past three years,

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primarily as a result of industry consolidation and bankruptcies. We believe this consolidation trend will continue, and will benefit a small number of service providers that have the resources and infrastructure to cost effectively provide the scalability, performance, reliability and business continuity that customers expect.

Our Strategy

Our goal is to become the leading provider of outsourced managed IT services for middle-market organizations, which include mid-sized companies, divisions of large multi-national companies and government agencies. Key elements of our strategy are to:

Deepen Existing Customer Relationships and Expand Our Customer Base. Most of our customers currently utilize only one of our service offerings. We plan to increase revenues with minimal additional cost by cross-selling our services to existing customers. We also plan to increase our customer base through direct sales and by expanding our channel relationships with key systems integrators and independent software vendors.

Improve Operating Margins Through Efficiencies. We have made significant improvements to our overall cost structure during the last twelve months. We intend to continue to improve operating margins as we improve the efficiency of our operations.

Grow Through Disciplined Acquisitions. We intend to derive much of our future growth through acquisitions of technologies, products and companies that improve our services and strengthen our position in our target markets.

Emphasize and Invest in New High-Growth Service Areas. We plan to target emerging high growth service areas and increase the number of services we provide to our customers.

Corporate Information

We were formed in 1996 within CMGI, Inc., our former majority stockholder, to support the networks and host Web sites of CMGI, its subsidiaries and several of its affiliated companies. In 1997, we began offering and supplying Web site hosting and management services to companies not affiliated with CMGI. We were incorporated in Delaware in December 1998. In October 1999, we completed our initial public offering of common stock and remained a majority-owned subsidiary of CMGI until September 2002. In September 2002, ClearBlue Technologies, Inc., or CBT, and its subsidiaries became our majority stockholder upon CBT's acquisition from CMGI and Hewlett-Packard Financial Services Company of all of their shares of our common stock then held, warrants to purchase our common stock and convertible promissory notes issued by us in exchange for shares of CBT common stock. In December 2002 and August 2003, CBT transferred shares of our common stock held by it to its stockholders, including the shares of our common stock currently held by Hewlett-Packard Financial Services Company. In connection with CBT's August 2003 transfers to its stockholders of its remaining shares of our common stock, Atlantic Investors, LLC, the indirect majority stockholder of CBT, became our majority stockholder. As of March 4, 2005, Atlantic Investors owned approximately 60% of the issued and outstanding shares of our common stock. Following the completion of this offering, Atlantic Investors will own approximately 51% of our common stock, allowing it to continue to have significant influence over our management and affairs and the outcome of any corporate action requiring stockholder approval.

Our corporate headquarters are located at 400 Minuteman Road, Andover, Massachusetts, and our telephone number is (978) 682-8300. Our Web site is found at www.navisite.com. The information available on, or that can be accessed through, our Web site is not a part of this prospectus.

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The Offering

Common stock offered by us 5,000,000 shares

Common stock to be outstanding after the offering 33,481,010 shares

Use of proceeds We expect to receive net proceeds from this offering of approximately \$8.7 million. We intend to use the net proceeds to us from this offering as follows:

approximately \$6.5 million for the repayment of a portion of indebtedness owed to Waythere, Inc. (formerly known as Surebridge, Inc.); and

approximately \$2.2 million for general corporate purposes, including working capital, and potential acquisitions of technologies, products and companies, although we have no current specific plans with respect to these amounts. We expect to receive total estimated net proceeds of approximately \$2.67 million from this offering. We have already paid approximately \$450,000 of offering-related expenses.

Nasdaq SmallCap Market symbol NAVI

The number of shares of our common stock outstanding after this offering is based on 28,481,010 shares outstanding as of February 28, 2005 and excludes as of February 28, 2005:

4,667,634 shares of common stock issuable upon exercise of outstanding stock options, at a weighted average exercise price of \$3.86 per share, under our Amended and Restated 2003 Stock Incentive Plan, as amended;

3,003 shares of common stock issuable upon exercise of outstanding stock options, at a weighted average exercise price of \$128.44 per share, under our 2000 Stock Option Plan;

211,206 shares of common stock issuable upon exercise of outstanding stock options, at a weighted average exercise price of \$26.67 per share, under our 1998 Equity Incentive Plan; and

1,949,456 additional shares of common stock reserved for future issuance under all of our stock plans.

Unless otherwise specifically stated, information throughout this prospectus assumes no conversion of any outstanding convertible promissory notes and no exercise of outstanding options or warrants to purchase shares of common stock.

We have never declared or paid cash dividends on our common stock and do not anticipate declaring or paying any cash dividends on our common stock for the foreseeable future. We expect that we will retain all future earnings to fund the growth and development of our business. We are also restricted from paying any cash dividends on our common stock by the terms of our amended accounts receivable financing agreement with Silicon Valley Bank.

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SUMMARY CONSOLIDATED FINANCIAL DATA
(In thousands, except per share data)

You should read the summary consolidated financial data set forth below together with the Management's Discussion and Analysis of Financial Condition and Results of Operations section included later in this prospectus, and our consolidated financial statements and related notes beginning on page F-1 of this prospectus.

On August 8, 2003, we completed the acquisition of certain assets and the assumption of certain liabilities of CBT in a business combination accounted for in a manner similar to a pooling-of-interest due to common control ownership. Accordingly, our consolidated financial statements have been restated for all periods prior to the business combination to include CBT's financial results beginning on September 11, 2002, the date on which CBT acquired the controlling interest in us, after the elimination of intercompany balances.

Consolidated Statement of Operations Data:

	Year Ended July 31,			Six Months Ended January 31,		Pro Forma(2) Twelve Months Ended July 31,
	2004	2003	2002	2005(4)	2004	2004
				(Unaudited)		(Unaudited)
Revenue	\$ 91,126	\$ 75,281	\$ 40,968	\$ 57,207	\$ 45,802	\$ 129,718
Revenue, related parties	46	1,310	18,453	68		46
Total revenue	91,172	76,591	59,421	57,275	45,802	129,764
Cost of revenue	68,379	70,781	67,000	43,454	34,682	95,997
Impairment, restructuring and other	917		68,317	34	633	917
Total cost of revenue	69,296	70,781	135,317	43,488	35,315	96,914
Gross profit (loss)	21,876	5,810	(75,896)	13,787	10,487	32,850
Operating expenses:						
Product development	1,075	950	5,281	224	660	1,075
Selling and marketing	9,567	5,960	9,703	6,370	3,876	17,189
General and administrative	24,714	20,207	19,272	12,410	10,245	34,785
Impairment, restructuring and other	5,286	8,882	(2,633)	1,505	1,402	5,286
Total operating expenses	40,642	35,999	31,623	20,509	16,183	58,335
Loss from operations	(18,766)	(30,189)	(107,519)	(6,722)	(5,696)	(25,485)
Other income (expense):						
Interest income	126	851	1,060	28	97	138
Interest expense	(3,181)	(43,403)	(14,718)	(3,825)	(1,279)	(6,844)
Other income (expense), net	468	(733)	(516)	76	86	468
Loss before income tax expense	(21,353)	(73,474)	(121,693)	(10,443)	(6,792)	(31,723)
Income tax expense	(1)	(153)		(765)		(1)
Net loss	\$ (21,354)	\$ (73,627)	\$ (121,693)	\$ (11,208)	\$ (6,792)	\$ (31,724)
	\$ (0.85)	\$ (6.32)	\$ (22.30)	\$ (0.40)	\$ (0.28)	\$ (1.14)

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Basic and diluted net loss per common share(1)

	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Basic and diluted weighted average number of common shares outstanding	25,160	11,654	5,457	27,936	24,624	27,734
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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	As of January 31, 2005	
	Actual	As Adjusted(3)
	(Unaudited)	
Cash and cash equivalents	\$ 1,517	\$ 4,184
Working capital (deficit)	(36,162)	(34,000)
Total assets	113,741	115,730
Accrued expenses, current portion	18,370	18,197
Debt	69,984	63,496
Long-term liabilities, excluding long-term notes payable	8,684	8,684
Stockholders' equity	1,705	10,355

- (1) As discussed in the notes to our consolidated financial statements, in January 2003 we completed a 1-for-15 reverse stock split of our outstanding shares of common stock. All historical share and per share data have been adjusted for the reverse stock split.
- (2) The unaudited pro forma consolidated statement of operations data combines the unaudited consolidated statement of operations of NaviSite for the fiscal year ended July 31, 2004 with the unaudited condensed consolidated statement of operations of Surebridge for the ten months and nine days ended June 9, 2004.
- (3) Adjusted to give effect to this offering and the application of the net proceeds to us, including the repayment of approximately \$6.5 million of indebtedness.