

NAVISITE INC
Form S-2/A
June 29, 2004

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As filed with the Securities and Exchange Commission on June 29, 2004

Registration Statement No. 333-112087

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 3

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:

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1888 Century Park East
Los Angeles, CA 90067
(310) 712-6600**

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(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock, par value \$0.01 per share	10,350,000	\$3.90	\$40,365,000	\$5,406.07(3)

(1) Includes 1,350,000 shares which may be sold upon exercise of the underwriters' over-allotment option.

(2) 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 June 23, 2004.

(3) A registration fee of \$4,837.82 was previously paid in connection with the original filing on January 22, 2004 for the registration of 9,200,000 shares at a per share price of \$6.50. The registration fee of \$568.25 for the additional 1,150,000 shares registered hereby is based on a per share price of \$3.90.

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. Neither we nor the selling stockholders may 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 JUNE 29, 2004

**9,000,000 Shares
Common Stock**

NaviSite, Inc. is selling 7,300,000 shares of common stock and the selling stockholders identified in this prospectus are selling an additional 1,700,000 shares. We will not receive any of the proceeds from the sale of the shares sold by the selling stockholders. Together with a selling stockholder identified in this prospectus, we have granted the underwriters a 30-day option to purchase up to an additional 1,350,000 shares to cover over-allotments, if any.

Our common stock is traded on the Nasdaq SmallCap Market under the symbol NAVI. On June 28, 2004, the last reported sale price for our common stock was \$3.95 per share. We have applied for listing of our common stock on the American Stock Exchange under the symbol NVE to be effective upon completion of this offering.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE RISK FACTORS BEGINNING ON PAGE 8.

	Per Share	Total
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to us ⁽¹⁾	\$	\$
Proceeds to the selling stockholders	\$	\$

(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.

Thomas Weisel Partners LLC

CIBC World Markets

SG Cowen

The date of this prospectus is _____, 2004

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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. 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.

We obtained the market data and industry information contained in this prospectus from internal surveys, reports and studies, as appropriate, as well as from market research, publicly available information and industry publications.

In this prospectus we, us and our refer to NaviSite, Inc. and its subsidiaries. Unless otherwise indicated, all information in this prospectus assumes no exercise of the underwriters' over-allotment option.

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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 a broad range of outsourced hosting and managed application services for 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 hosting and management of their information technology infrastructure and applications, 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 16 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 hosting and application management services.

We currently service approximately 1,100 customers, including approximately 191 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.

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 April 30, 2004, we had incurred losses since our incorporation resulting in an accumulated deficit of approximately \$428.3 million. During the fiscal quarter and nine months ended April 30, 2004, we had a net loss of approximately \$3.0 million and \$9.8 million, respectively. The audit report from KPMG LLP, our independent auditors, relating to our fiscal year 2003 financial statements 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 range of application, infrastructure and messaging 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

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\$56 million in our operating platform and automation capabilities and have refined our processes over time across a large base of customers. Our services include:

Managed Application Services (A-Services)	Application Hosting Application Management Application Development
Managed Infrastructure Services (I-Services)	Content and Electronic Software Distribution Colocation Bandwidth Security Disaster Recovery
Managed Messaging Services (M-Services)	Managed Messaging

Following our acquisition of Surebridge described below, 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 applications we provide include PeopleSoft, Siebel Systems, Progress Software and the Microsoft Business Solutions suite.

Our service offerings are facilitated by our proprietary Collaborative Application Management platform, or CAM. Our CAM platform enables us, with our customers, to provide highly efficient, effective and customized management of their outsourced enterprise applications and information technology. Comprised of a suite of third-party and proprietary products, CAM provides tools designed specifically to meet the needs of customers who outsource or want to provide on-demand application services.

We believe that the combination of CAM 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, CAM is application and operating platform neutral. Designed to enable enterprise software applications to be provisioned and used as an on-demand solution, the CAM 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.

Independent market research firms indicate that the markets for our services are large and expected to grow rapidly over the next few years. According to Gartner Dataquest, or Gartner, the North American Web-hosting market will grow from \$5.8 billion in 2002 to \$20.0 billion in 2007. Gartner also estimates that the North American content distribution network and software delivery services market will grow from \$173 million in 2002 to \$814 million by 2007. According to The Radicati Group, the hosted and managed business email market will grow from approximately \$2.3 billion in 2003 to approximately \$3.1 billion in 2007.

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, 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

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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 hosting and managed application 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 further penetrate our existing customer base with minimal additional costs by cross-selling our broad suite of services. 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 enhance our services portfolio 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 value-add services we provide to our customers.

Recent Developments

On June 10, 2004, we completed the acquisition of substantially all of the assets and liabilities of Surebridge, Inc., or Surebridge, a privately held provider of managed application services for mid-market companies, in exchange for two promissory notes in the aggregate principal amount of approximately \$39.3 million, three million shares of our common stock and the assumption of certain liabilities of Surebridge at closing. Our acquisition of Surebridge broadens our portfolio of outsourced application services, particularly in the areas of financial management, supply chain management, human resources management and customer relationship management. Surebridge provides these services to a range of vertical industries through its direct sales force as well as channel relationships. The applications that Surebridge supports include PeopleSoft, Siebel Systems and Microsoft Business Solutions suite.

The promissory notes that we issued to Surebridge accrue interest on the unpaid balance at an annual rate of 10%, however no interest accrues on any principal paid within nine months of the closing. In the event that we realize net proceeds in excess of \$1 million from equity or debt financings or sales of assets, including this offering, we are obligated to use a significant portion of the proceeds to make payments on the notes. The notes must be paid in full no later than the second anniversary of the closing.

The outstanding principal of and accrued interest on the notes are convertible into shares of NaviSite common stock at a conversion price of \$4.642 at the election of the holder:

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;

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;

at any time following the second anniversary of the closing; and

at any time following an event of default thereunder.

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For a period of one year following the closing of the acquisition, Surebridge may not sell, transfer, assign, convey, encumber, gift, distribute or otherwise dispose of its shares of our common stock or the notes; provided, however, if we do not make certain payments under the notes or otherwise suffer an event of default thereunder, Surebridge may sell its shares at any time thereafter.

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 June 17, 2004, Atlantic Investors owned approximately 61% of the issued and outstanding shares of our common stock. Following the completion of this offering, Atlantic Investors will own approximately 49% 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	7,300,000 shares
Common stock offered by selling stockholders	1,700,000 shares
Common stock to be outstanding after the offering	35,218,049 shares
Underwriters' over-allotment option	1,350,000 shares ⁽¹⁾
Use of proceeds	<p>We expect to receive net proceeds from this offering of approximately \$33.5 million. We intend to use the net proceeds to us from this offering as follows:</p> <p style="padding-left: 40px;">approximately \$3.3 million for the repayment of outstanding indebtedness owed to Atlantic Investors, LLC;</p> <p style="padding-left: 40px;">approximately \$16.7 million for the repayment of a portion of indebtedness owed to Surebridge, Inc.; and</p> <p style="padding-left: 40px;">approximately \$13.5 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 the \$13.5 million.</p> <p>We will not receive any proceeds from the sale of our common stock by the selling stockholders.</p>
Proposed American Stock Exchange symbol ⁽²⁾	NVE

The number of shares of our common stock outstanding after this offering is based on 27,918,049 shares outstanding as of June 17, 2004 and excludes as of June 17, 2004:

3,595,332 shares of common stock issuable upon exercise of outstanding stock options, at a weighted average exercise price of \$3.54 per share, under our Amended and Restated 2003 Stock Incentive Plan;

3,708 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;

232,053 shares of common stock issuable upon exercise of outstanding stock options, at a weighted average exercise price of \$55.40 per share, under our 1998 Equity Incentive Plan; and

62,848 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 exercise of outstanding options or warrants to purchase shares of common stock; and

no exercise of the underwriters' over-allotment option.

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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- (1) Consists of 700,000 shares to be sold by us and 650,000 shares to be sold by a selling stockholder.
- (2) We have applied for listing of our common stock on the American Stock Exchange to be effective upon completion of this offering.

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(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,			Nine Months Ended April 30,		Pro Forma(2) Three Months Ended April 30,	Pro Forma(2) Nine Months Ended April 30,
	2003	2002	2001	2004	2003	2004	2004
						(Unaudited)	(Unaudited)
				(Unaudited)			
Revenue	\$ 75,281	\$ 40,968	\$ 66,358	\$ 65,975	\$ 52,942	\$ 31,886	\$ 98,285
Revenue, related parties	1,310	18,453	36,368	12	1,310	239	781
Total revenue	76,591	59,421	102,726	65,987	54,252	32,125	99,066
Cost of revenue	70,781	67,000	127,155	48,899	50,821	21,994	71,824
Impairment, restructuring and other		68,317	1,930	633			633
Total cost of revenue	70,781	135,317	129,085	49,532	50,821	21,994	72,457
Gross profit (deficit)	5,810	(75,896)	(26,359)	16,455	3,431	10,131	26,609
Operating expenses:							
Product development	950	5,281	14,072	890	624	230	890
Selling and marketing	5,960	9,703	32,251	5,724	3,759	3,809	12,257
General and administrative	20,207	19,272	33,011	16,342	13,718	8,631	24,975
Impairment, restructuring and other	8,882	(2,633)	8,011	1,608	6,274	206	1,608
Total operating expenses	35,999	31,623	87,345	24,564	24,375	12,876	39,730
Loss from operations	(30,189)	(107,519)	(113,704)	(8,109)	(20,944)	(2,745)	(13,121)
Other income (expense):							
Interest income	851	1,060	2,753	115	685	20	125
Interest expense	(43,403)	(14,718)	(8,042)	(1,935)	(20,170)	(1,728)	(5,133)
Other income (expense), net	(733)	(516)	292	111	(1,111)	25	111
	(73,474)	(121,693)	(118,701)	(9,818)	(41,540)	(4,428)	(18,018)

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Loss before cumulative effect of change in accounting principle and income tax expense	(153)						
Income tax expense							
Loss before cumulative effect of change in accounting principle	(73,627)	(121,693)	(118,701)	(9,818)	(41,540)	(4,428)	(18,018)
Cumulative effect of change in accounting principle			(4,295)				
Net loss	<u>\$(73,627)</u>	<u>\$(121,693)</u>	<u>\$(122,996)</u>	<u>\$(9,818)</u>	<u>\$(41,540)</u>	<u>\$(4,428)</u>	<u>\$(18,018)</u>

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	Year Ended July 31,			Nine Months Ended April 30,		Pro Forma(2) Three Months Ended April 30,	Pro Forma(2) Nine Months Ended April 30,
	2003	2002	2001	2004	2003	2004	2004
						(Unaudited)	(Unaudited)
Basic and diluted net loss per common share:(1)							
Before cumulative effect of change in accounting principle	\$ (6.32)	\$ (22.30)	\$ (30.18)	\$ (0.40)	\$ (4.33)	\$ (0.16)	\$ (0.65)
Cumulative effect of change in accounting principle			(1.09)				
Basic and diluted net loss per common share	\$ (6.32)	\$ (22.30)	\$ (31.27)	\$ (0.40)	\$ (4.33)	\$ (0.16)	\$ (0.65)
Basic and diluted weighted average number of common shares outstanding	11,654	5,457	3,933	24,685	9,587	27,809	27,685

Consolidated Balance Sheet Data:

	As of April 30, 2004	
	Actual	Pro Forma As Adjusted(2)(3)
		(Unaudited)
Cash and cash equivalents	\$ 7,630	\$ 22,785
Working capital (deficit)	(16,618)	(4,259)
Total assets	61,488	141,866
Accrued expenses, current portion	13,628	15,771
Debt	27,186	51,393
Long-term liabilities, excluding long-term notes payable	3,349	3,444
Stockholders' equity	8,720	56,550

- (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 pro forma consolidated statement of operations data combines the unaudited condensed consolidated statement of operations of NaviSite for the three and nine months ended April 30, 2004 with the unaudited condensed consolidated statement of operations of Surebridge for the three and nine months ended March 31, 2004.
- (3) Adjusted to give effect to this offering and the application of the net proceeds to us, including the repayment of approximately \$20.0 million of indebtedness.

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RISK FACTORS

You should carefully consider the risks described below before making an investment decision. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained or incorporated by reference in this prospectus, including our consolidated financial statements and related notes.

Risks Relating to Our Business

We have a history of losses and may never achieve or sustain profitability and may not continue as a going concern.

We have never been profitable and may never become profitable. Since our incorporation in 1998, we have experienced operating losses and negative cash flows for each quarterly and annual period. As of April 30, 2004, we had incurred losses since our incorporation resulting in an accumulated deficit of approximately \$428.3 million. During the fiscal quarter and nine months ended April 30, 2004, we had a net loss of approximately \$3.0 million and \$9.8 million, respectively. The audit report from KPMG LLP, our independent auditors, relating to our fiscal year 2003 financial statements 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. We anticipate that we will continue to incur net losses in the future. We also have significant fixed commitments, including with respect to real estate, bandwidth commitments, machinery and equipment leases. As a result, we can give no assurance that we will achieve profitability or be capable of sustaining profitable operations. If we are unable to reach and sustain profitability, we risk depleting our working capital balances and our business may not continue as a going concern.

We may need to obtain additional financing, which may not be available on favorable terms, or at all.

As of April 30, 2004 we had approximately \$7.6 million of cash and cash equivalents and a working capital deficit of approximately \$16.6 million. On June 11, 2004, we borrowed approximately \$3.9 million under our Silicon Valley Bank amended accounts receivable financing agreement to repay indebtedness owed to Silicon Valley Bank by Surebridge that we assumed as part of the Surebridge acquisition. Our outstanding balance under the amended agreement as of June 11, 2004 was \$15.2 million. If we do not complete this offering, or if we do complete this offering and then use a significant portion of the net proceeds we receive to acquire a company, technology or product, we may need to raise additional capital through various other equity or debt financings.

Our projections for cash usage are based on a number of assumptions, including:

our ability to retain customers in light of market uncertainties and our uncertain future;

our ability to collect accounts receivables in a timely manner;

our ability to effectively integrate Surebridge and other recent acquisitions and realize forecasted cash savings; and

our ability to achieve other expected cash expense reductions.

Further, our projected use of cash and business results could be affected by continued market uncertainties, including delays or restrictions in information technology spending by customers or potential customers and any merger or acquisition activity.

In recent years, we have generally financed our operations with proceeds from selling shares of our stock and borrowing funds. There can be no assurance that additional financing will be available on favorable terms, or at all. In addition, even if we find outside funding sources, we may be required to

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issue securities with greater rights than those currently possessed by holders of our common stock. We may also be required to take other actions that may lessen the value of our common stock or dilute our common stockholders, including borrowing money on terms that are not favorable to us or issuing additional equity securities. If we are required to raise money in the future and we experience difficulties doing so, our business and liquidity will be materially adversely affected.

We may not realize all of the anticipated benefits of our recent acquisition of Surebridge.

On June 10, 2004, pursuant to an asset purchase agreement dated May 6, 2004, we completed the acquisition of substantially all of the assets of Surebridge for three million shares of our common stock, two promissory notes in the aggregate principal amount of approximately \$39.3 million and the assumption of certain liabilities.

The success of the acquisition depends, in part, on our ability to realize the anticipated synergies, cost savings and growth and marketing opportunities from integrating the businesses of Surebridge with the businesses of NaviSite. Our success in realizing these benefits and the timing of this realization depend upon the successful integration of the technology, personnel and operations of Surebridge. The integration of two independent companies is a complex, costly and time-consuming process. The difficulties of combining the operations of the companies include, among others:

retaining key employees;

consolidating corporate and administrative infrastructures;

maintaining customer service levels;

coordinating sales and marketing functions;

preserving the distribution, marketing, promotion and other important internal operations and third-party relationships of Surebridge;

minimizing the diversion of management's attention from our current business;

coordinating geographically disparate organizations and data centers; and

retaining key customers.

There can be no assurance that the integration of Surebridge with NaviSite will result in the realization of the full benefits that we anticipate in a timely manner or at all.

The promissory notes we issued in the Surebridge acquisition may negatively affect our liquidity and our ability to obtain additional financing and operate and manage our business.

On June 10, 2004, in connection with our acquisition of the Surebridge business, we issued two convertible promissory notes in the aggregate principal amount of approximately \$39.3 million. We must repay the outstanding principal of the notes with all interest accrued thereon, no later than June 10, 2006. In addition, in the event that we realize net proceeds in excess of \$1.0 million from certain equity or debt financings or sales of assets, including this offering, we are obligated to use a significant portion of the proceeds to make payments on the notes. The notes, or the prepayment obligation thereon, may adversely affect our ability to raise or retain additional capital. If we commit an event of default under any of the promissory notes, which may include a default of obligations owed to other third parties, prior to the respective maturity dates of the promissory notes, then the holders of the promissory notes may declare the notes immediately due and payable, which would adversely affect our liquidity and our ability to manage our business. Furthermore, the promissory notes contain certain restrictive covenants, including with respect to our ability to incur indebtedness.

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NaviSite's common stockholders may suffer significant dilution in the future upon the conversion of outstanding securities and the issuance of additional securities in potential future acquisitions.

The outstanding principal and accrued interest on the two Surebridge promissory notes shall be convertible into shares of our common stock at a conversion price of \$4.642, at the election of the holder:

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 \$20.0 million;

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 \$10.0 million;

at any time following the second anniversary of the closing; and

at any time following an event of default thereunder.

If the promissory notes are converted into shares of common stock, Surebridge may obtain a significant equity interest in NaviSite and other stockholders may experience significant and immediate dilution. Should Surebridge elect to convert all of the initial principal amount of its two convertible promissory notes into shares of our common stock, Surebridge would own approximately 11,466,000 shares of our common stock, which, based on our capitalization as of June 17, 2004, would be approximately 32% of our outstanding shares of common stock.

In addition, our stockholders will experience further dilution to the extent that additional shares of our common stock are issued in potential future acquisitions.

Our financing agreement with Silicon Valley Bank includes various covenants and restrictions that may negatively affect our liquidity and our ability to operate and manage our business.

As of June 11, 2004, we owed Silicon Valley Bank approximately \$15.2 million under our amended accounts receivable financing agreement following a borrowing of approximately \$3.9 million on June 11, 2004 to repay a Surebridge loan that we assumed as part of the Surebridge acquisition. The accounts receivable financing agreement generally restricts or limits, among other things, our ability to:

create or incur indebtedness;

sell, or permit any lien or security interest in, any of our assets;

enter into or permit any material transaction with any of our affiliates;

merge or consolidate with any other party, or acquire all or substantially all of the capital stock or property of another party, unless, among other things, the other party is in the same, or a similar line of business as us;

relocate our principal executive office or add any new offices or business locations;

change our state of formation;

change our legal name;

make investments;

pay dividends or make any distribution or payment or redeem, retire or purchase our capital stock; and

make or permit any payment on subordinated debt or amend any provision in any document relating to any subordinated debt.

Further, the accounts receivable financing agreement requires that we maintain EBITDA of at least \$1.00 for every fiscal quarter. The agreement defines EBITDA as earnings before interest, taxes, depreciation

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and amortization in accordance with generally accepted accounting principles and excluding acquisition-related costs and one-time extraordinary charges.

If we breach our accounts receivable financing agreement with Silicon Valley Bank, which may be deemed to have occurred upon an event of default under the promissory notes issued in the Surebridge transaction, a default could result. A default, if not waived, could result in, among other things, us not being able to borrow additional amounts from Silicon Valley Bank and all or a portion of our outstanding amounts may become due and payable on an accelerated basis, which would adversely affect our liquidity and our ability to manage our business. A default under the accounts receivable financing agreement could also result in a cross-default under the promissory notes issued in the Surebridge transaction thereby accelerating the repayment obligation on the notes and also allowing the holder to elect to convert the principal and accrued interest thereon into shares of our common stock.

Our limited operating history with our current operating structure makes it difficult for us and our investors to evaluate our past performance and future prospects.

We have completed a number of acquisitions since December 2002. Until a significant period of time elapses, it will be difficult to determine if we correctly valued these acquired businesses or adequately anticipated all of the demands that our growth will impose on our personnel, procedures and structures, including our financing and reporting control systems and management structure. Our limited operating history with our current structure makes it very difficult for you and us to evaluate or predict our ability to, among other things, retain customers, generate and sustain a revenue base sufficient to meet our operating expenses, and achieve and sustain profitability.

A significant portion of our revenue comes from one customer and, if we lost this customer, it would have a significant adverse impact on our business results and cash flows.

The New York State Department of Labor represented approximately 21% of our consolidated revenue for the fiscal year ended July 31, 2003 and 12% for the fiscal quarter ended April 30, 2004 on a larger revenue base. The New York State Department of Labor has been a long-term customer of ours, but there can be no assurance that we will be able to retain this customer. Further, there can be no assurance that we will be able to maintain the same level of service to this customer or that our revenue from this customer will not decline or suffer a material reduction in future periods. The New York State Department of Labor is not obligated under our agreement to buy a minimum amount of services from us or designate us as its sole supplier of any particular service. This contract with The New York State Department of Labor, and its funding allowance, expires in June 2005. Further, The New York State Department of Labor has the right to terminate this contract at any time by providing us with 60 days notice. If we were to lose this customer or suffer a material reduction in the revenue generated from this customer, it would have a significant adverse impact on our business results and cash flows.

Atlantic Investors may have interests that conflict with the interests of our other stockholders and, as our majority stockholder, can prevent new and existing investors from influencing significant corporate decisions.

Atlantic Investors owns approximately 61% of our outstanding capital stock as of June 17, 2004. Following completion of this offering, Atlantic Investors will own approximately 49% of our outstanding capital stock. In addition, Atlantic Investors holds a note in the principal amount of \$3.0 million due upon the earlier to occur of August 1, 2004, and five business days after our receipt of gross proceeds from a financing or a sale of assets of at least \$13 million. Atlantic Investors, prior to the offering, has the power, acting alone, to elect a majority of our Board of Directors and has the ability to control our management and affairs and determine the outcome of any corporate action requiring stockholder approval, regardless of how our other stockholders may vote, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets, and any other significant corporate transaction. Under Delaware law, Atlantic Investors is able to exercise its voting power by written

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consent, without convening a meeting of the stockholders, which means that Atlantic Investors could effect a sale or merger of us without the consent of our other stockholders. Atlantic Investors' ownership of a majority of our outstanding common stock may have the effect of delaying, deterring or preventing a change in control of us or discouraging a potential acquiror from attempting to obtain control of us, which in turn could adversely affect the market price of our common stock. Following the completion of this offering, Atlantic Investors will continue to have significant influence over our management and affairs and the outcome of any corporate action requiring stockholder approval.

Members of our management group also have significant interests in Atlantic Investors, which may create conflicts of interest.

Some of the members of our management group also serve as members of the management group of Atlantic Investors and its affiliates. Specifically, Andrew Ruhan, our Chairman of the Board, holds a 10% equity interest in Unicorn Worldwide Holdings Limited, a managing member of Atlantic Investors. Arthur Becker, our President and Chief Executive Officer, is the managing member of Madison Technology LLC, a managing member of Atlantic Investors. As a result, these NaviSite officers and directors may face potential conflicts of interest with each other and with our stockholders. They may be presented with situations in their capacity as our officers or directors that conflict with their fiduciary obligations to Atlantic Investors, which in turn may have interests that conflict with the interests of our other stockholders.

Acquisitions may result in disruptions to our business or distractions of our management due to difficulties in integrating acquired personnel and operations, and these integrations may not proceed as planned.

Since December 2002, we have acquired ClearBlue Technologies Management, Inc., or CBTM, Avasta, Conxion, selected assets of Interliant, all of the shares of ten wholly-owned subsidiaries of ClearBlue Technologies, Inc., or CBT, and substantially all of the assets and liabilities of Surebridge. We intend to continue to expand our business through the acquisition of companies, technologies, products and services. Acquisitions involve a number of special problems and risks, including:

- difficulty integrating acquired technologies, products, services, operations and personnel with the existing businesses;
- difficulty maintaining relationships with important third parties, including those relating to marketing alliances and providing preferred partner status and favorable pricing;
- diversion of management's attention in connection with both negotiating the acquisitions and integrating the businesses;
- strain on managerial and operational resources as management tries to oversee larger operations;
- inability to retain and motivate management and other key personnel of the acquired businesses;
- changes in management and key personnel of acquired businesses may harm relationships with the acquired businesses' customers, suppliers and employees;
- exposure to unforeseen liabilities of acquired companies;
- potential costly and time-consuming litigation, including stockholder lawsuits;
- potential issuance of securities in connection with an acquisition with rights that are superior to the rights of holders of our common stock, or which may have a dilutive effect on our common stockholders;
- the need to incur additional debt or use cash; and
- the requirement to record potentially significant additional future operating costs for the amortization of intangible assets.

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As a result of these problems and risks, businesses we acquire may not produce the revenues, earnings or business synergies that we anticipated, and acquired products, services or technologies might not perform as we expected. As a result, we may incur higher costs and realize lower revenues than we had anticipated. We may not be able to successfully address these problems and we cannot assure you that the acquisitions will be successfully identified and completed or that, if acquisitions are completed, the acquired businesses, products, services or technologies will generate sufficient revenue to offset the associated costs or other harmful effects on our business.

A failure to meet customer specifications or expectations could result in lost revenues, increased expenses, negative publicity, claims for damages and harm to our reputation and cause demand for our services to decline.

Our agreements with customers require us to meet specified service levels for the services we provide. In addition, our customers may have additional expectations about our services. Any failure to meet customers' specifications or expectations could result in:

delayed or lost revenue;

requirements to provide additional services to a customer at reduced charges or no charge;

negative publicity about us, which could adversely affect our ability to attract or retain customers; and

claims by customers for substantial damages against us, regardless of our responsibility for such failure, which may not be covered by insurance policies and which may not be limited by contractual terms of our engagement.

Our ability to successfully market our services could be substantially impaired if we are unable to deploy new infrastructure systems and applications or if new infrastructure systems and applications deployed by us prove to be unreliable, defective or incompatible.

We may experience difficulties that could delay or prevent the successful development, introduction or marketing of hosting and application management services in the future. If any newly introduced infrastructure systems and applications suffer from reliability, quality or compatibility problems, market acceptance of our services could be greatly hindered and our ability to attract new customers could be significantly reduced. We cannot assure you that new applications deployed by us will be free from any reliability, quality or compatibility problems. If we incur increased costs or are unable, for technical or other reasons, to host and manage new infrastructure systems and applications or enhancements of existing applications, our ability to successfully market our services could be substantially limited.

Any interruptions in, or degradation of, our private transit Internet connections could result in the loss of customers or hinder our ability to attract new customers.

Our customers rely on our ability to move their digital content as efficiently as possible to the people accessing their Web sites and infrastructure systems and applications. We utilize our direct private transit Internet connections to major network providers, such as Level 3, Internap, WilTel and XO Communications, as a means of avoiding congestion and resulting performance degradation at public Internet exchange points. We rely on these telecommunications network suppliers to maintain the operational integrity of their networks so that our private transit Internet connections operate effectively. If our private transit Internet connections are interrupted or degraded, we may face claims by, or lose, customers, and our reputation in the industry may be harmed, which may cause demand for our services to decline.

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If we are unable to maintain existing and develop additional relationships with software vendors, the sales and marketing of our service offerings may be unsuccessful.

We believe that to penetrate the market for hosting and application management services we must maintain existing and develop additional relationships with industry-leading software vendors. We license or lease select software applications from software vendors, including IBM, Microsoft, Micromuse and Oracle. Our relationships with Microsoft and PeopleSoft are critical to the operations and success of our recently acquired business from Surebridge. The loss of our ability to continually obtain, utilize or depend on any of these applications or relationships could substantially weaken our ability to provide services to our customers or require us to obtain substitute software applications that may be of lower quality or performance standards or at greater cost. In addition, because we generally license applications on a non-exclusive basis, our competitors may license and utilize the same software applications. In fact, many of the companies with which we have strategic relationships currently have, or could enter into, similar license agreements with our competitors or prospective competitors. We cannot assure you that software applications will continue to be available to us from software vendors on commercially reasonable terms. If we are unable to identify and license software applications that meet our targeted criteria for new application introductions, we may have to discontinue or delay introduction of services relating to these applications.

Our network infrastructure could fail, which would impair our ability to provide guaranteed levels of service and could result in significant operating losses.

To provide our customers with guaranteed levels of service, we must operate our network infrastructure 24 hours a day, seven days a week without interruption. We must, therefore, protect our network infrastructure, equipment and customer files against damage from human error, natural disasters, unexpected equipment failure, power loss or telecommunications failures, terrorism, sabotage or other intentional acts of vandalism. Even if we take precautions, the occurrence of a natural disaster, equipment failure or other unanticipated problem at one or more of our data centers could result in interruptions in the services we provide to our customers. We cannot assure you that our disaster recovery plan will address all, or even most, of the problems we may encounter in the event of a disaster or other unanticipated problem. We have experienced service interruptions in the past, and any future service interruptions could:

require us to spend substantial amounts of money to replace equipment or facilities;

entitle customers to claim service credits or seek damages for losses under our service level guarantees;

cause customers to seek alternate providers; or

impede our ability to attract new customers, retain current customers or enter into additional strategic relationships.

Our dependence on third parties increases the risk that we will not be able to meet our customers' needs for software, systems and services on a timely or cost-effective basis, which could result in the loss of customers.

Our services and infrastructure rely on products and services of third-party providers. We purchase key components of our infrastructure, including networking equipment, from a limited number of suppliers, such as IBM, Cisco Systems and F5 Networks. Our recently acquired business from Surebridge relies on products and services of Microsoft and PeopleSoft. There can be no assurance that we will not experience operational problems attributable to the installation, implementation, integration, performance, features or functionality of third-party software, systems and services. We cannot assure you that we will have the necessary hardware or parts on hand or that our suppliers will be able to provide them in a timely manner in the event of equipment failure. Our ability to obtain and continue to maintain the necessary hardware or parts on a timely basis could result in sustained equipment failure.

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and a loss of revenue due to customer loss or claims for service credits under our service level guarantees.

We could be subject to increased operating costs, as well as claims, litigation or other potential liability, in connection with risks associated with Internet security and the security of our systems.

A significant barrier to the growth of e-commerce and communications over the Internet has been the need for secure transmission of confidential information. Several of our infrastructure systems and application services utilize encryption and authentication technology licensed from third parties to provide the protections necessary to ensure secure transmission of confidential information. We also rely on security systems designed by third parties and the personnel in our network operations centers to secure those data centers. Any unauthorized access, computer viruses, accidental or intentional actions and other disruptions could result in increased operating costs. For example, we may incur additional significant costs to protect against these interruptions and the threat of security breaches or to alleviate problems caused by such interruptions or breaches. Further, we expect to continue to invest in and expend additional financial resources to equip our data centers with enhanced security measures. If a third party were able to misappropriate a consumer's personal or proprietary information, including credit card information, during the use of an application solution provided by us, we could be subject to claims, litigation or other potential liability.

Third-party infringement claims against our technology suppliers, customers or us could result in disruptions in service, the loss of customers or costly and time-consuming litigation.

We license or lease most technologies used in the infrastructure systems and application services that we offer. Our technology suppliers may become subject to third-party infringement or other claims and assertions, which could result in their inability or unwillingness to continue to license their technologies to us. We cannot assure you that third parties will not assert claims against us in the future or that these claims will not be successful. Any infringement claim as to our technologies or services, regardless of its merit, could result in delays in service, installation or upgrades, the loss of customers or costly and time-consuming litigation.

We may be subject to legal claims in connection with the information disseminated through our network, which could divert management's attention and require us to expend significant financial resources.

We may face potential direct and indirect liability for claims of defamation, negligence, copyright, patent or trademark infringement and other claims based on the nature and content of the materials disseminated through our network. For example, lawsuits may be brought against us claiming that content distributed by some of our current or future customers may be regulated or banned. In these and other instances, we may be required to engage in protracted and expensive litigation that could have the effect of diverting management's attention from our business and require us to expend significant financial resources. Our general liability insurance may not cover any of these claims or may not be adequate to protect us against all liability that may be imposed. In addition, on a limited number of occasions in the past, businesses, organizations and individuals have sent unsolicited commercial e-mails from servers hosted at our facilities to a number of people, typically to advertise products or services. This practice, known as spamming, can lead to statutory liability as well as complaints against service providers that enable such activities, particularly where recipients view the materials received as offensive. We have in the past received, and may in the future receive, letters from recipients of information transmitted by our customers objecting to such transmission. Although we prohibit our customers by contract from spamming, we cannot assure you that our customers will not engage in this practice, which could subject us to claims for damages.

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If we fail to attract or retain key officers, management and technical personnel, our ability to successfully execute our business strategy or to continue to provide services and technical support to our customers could be adversely affected and we may not be successful in attracting new customers.

We believe that attracting, training, retaining and motivating technical and managerial personnel, including individuals with significant levels of infrastructure systems and application expertise, is a critical component of the future success of our business. Qualified technical personnel are likely to remain a limited resource for the foreseeable future and competition for these personnel is intense. The departure of any of our executive officers, particularly Arthur P. Becker, our Chief Executive Officer and President, or core members of our sales and marketing teams or technical service personnel, would have negative ramifications on our customer relations and operations, including adversely affecting the stability of our infrastructure and our ability to provide the guaranteed service levels our customers expect. Any officer or employee can terminate his or her relationship with us at any time. In addition, we do not carry life insurance on any of our personnel. Over the past 18 months, we have had significant reductions-in-force due to redundancies and restructurings resulting from the consolidation of our acquired companies. We have also had a number of departures of several members of senior management due primarily to the change of control of NaviSite on September 11, 2002. In the event future reductions or departures of employees occur, our ability to successfully execute our business strategy, or to continue to provide services to our customers or attract new customers, could be adversely affected.

The unpredictability of our quarterly results may cause the trading price of our common stock to fluctuate or decline.

Our quarterly operating results may vary significantly from quarter-to-quarter and period-to-period as a result of a number of factors, many of which are outside of our control and any one of which may cause our stock price to fluctuate. The primary factors that may affect our operating results include the following:

- reduction of market demand and/or acceptance of our services;
- oversupply of data center space in the industry;
- our ability to develop, market and introduce new services on a timely basis;
- the length of the sales cycle for our services;
- the timing and size of sales of our services, which depends on the budgets of our customers;
- downward price adjustments by our competitors;
- changes in the mix of services provided by our competitors;
- technical difficulties or system downtime affecting the Internet or our hosting operations;
- our ability to meet any increased technological demands of our customers; and
- the amount and timing of costs related to our marketing efforts and service introductions.

Due to the above factors, we believe that quarter-to-quarter or period-to-period comparisons of our operating results may not be a good indicator of our future performance. Our operating results for any particular quarter may fall short of our expectations or those of stockholders or securities analysts. In this event, the trading price of our common stock would likely fall.

If we are unsuccessful in pending and potential litigation matters, our financial condition may be adversely affected.

We are currently involved in various pending and potential legal proceedings, including a class action lawsuit related to our initial public offering, an arbitration matter involving the former stockholders of

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Avasta, counterclaims by the defendant in a suit in which we are the plaintiff, and a payment demand by an investment bank. If we are ultimately unsuccessful in any of these matters, we could be required to pay substantial amounts of cash and/or shares of our common stock to the other parties. The amount and timing of any such payments could adversely affect our financial condition.

Risks Related to Our Industry

If the markets for outsourced information technology infrastructure and applications, Internet commerce and communication decline, there may be insufficient demand for our services and, as a result, our business strategy and objectives may fail.

The increased use of the Internet for retrieving, sharing and transferring information among businesses and consumers is developing, and the market for the purchase of products and services over the Internet is still relatively new and emerging. Our industry has experienced periods of rapid growth, followed by a sharp decline in demand for products and services, which related to the failure in the last few years of many companies focused on developing Internet-related businesses. If acceptance and growth of the Internet as a medium for commerce and communication declines, our business strategy and objectives may fail because there may not be sufficient market demand for our hosting and application management services.

If we do not respond to rapid changes in the technology sector, we will lose customers.

The markets for the technology-related services we offer are characterized by rapidly changing technology, evolving industry standards, frequent new service introductions, shifting distribution channels and changing customer demands. We may not be able to adequately adapt our services or to acquire new services that can compete successfully. In addition, we may not be able to establish and maintain effective distribution channels. We risk losing customers to our competitors if we are unable to adapt to this rapidly evolving marketplace.

The market in which we operate is highly competitive and is likely to consolidate, and we may lack the financial and other resources, expertise or capability needed to capture increased market share or maintain market share.

We compete in the hosting and application management services market. This market is rapidly evolving, highly competitive and likely to be characterized by over-capacity and industry consolidation. Our competitors may consolidate with one another or acquire software application vendors or technology providers, enabling them to more effectively compete with us. Many participants in this market have suffered significantly in the last several years. We believe that participants in this market must grow rapidly and achieve a significant presence to compete effectively. This consolidation could affect prices and other competitive factors in ways that would impede our ability to compete successfully in the hosting and application management services market.

Further, our business is not as developed as that of many of our competitors. Many of our competitors have substantially greater financial, technical and market resources, greater name recognition and more established relationships in the industry. Many of our competitors may be able to:

develop and expand their network infrastructure and service offerings more rapidly;

adapt to new or emerging technologies and changes in customer requirements more quickly;

take advantage of acquisitions and other opportunities more readily; or

devote greater resources to the marketing and sale of their services and adopt more aggressive pricing policies than we can.

We may lack the financial and other resources, expertise or capability needed to maintain or capture increased market share in this environment in the future. Because of these competitive factors and due to our comparatively small size and our lack of financial resources, we may be unable to successfully compete in the hosting and application management services market.

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The emergence and growth of a market for our hosting and managed application services will be impaired if third parties do not continue to develop and improve Internet infrastructure.

The recent growth in the use of the Internet has caused frequent periods of performance degradation, requiring the upgrade of routers and switches, telecommunications links and other components forming the infrastructure of the Internet. Any perceived degradation in the performance of the Internet as a means to transact business and communicate could undermine the benefits and market acceptance of our services. Consequently, the market for our services will be impaired if improvements are not made to the entire Internet infrastructure to alleviate overloading and congestion.

Difficulties presented by international economic, political, legal, accounting and business factors could harm our business in international markets.

We operate a data center in the United Kingdom and revenue from our foreign operations accounted for approximately 9% of our total revenues during the third quarter of fiscal year 2004. Although we expect to focus most of our growth efforts in the United States, we may enter into joint ventures or outsourcing agreements with third parties, acquire complementary businesses or operations, or establish and maintain new operations outside of the United States. Some risks inherent in conducting business internationally include:

unexpected changes in regulatory, tax and political environments;

longer payment cycles and problems collecting accounts receivable;

geopolitical risks such as political and economic instability and the possibility of hostilities among countries;

reduced protection of intellectual property rights;

fluctuations in currency exchange rates;

our ability to secure and maintain the necessary physical and telecommunications infrastructure;

challenges in staffing and managing foreign operations;

employment laws and practices in foreign countries; and

laws and regulations on content distributed over the Internet that are more restrictive than those currently in place in the United States. Any one or more of these factors could adversely affect our contemplated future international operations and consequently, our business.

We may become subject to burdensome government regulation and legal uncertainties that could substantially harm our business or expose us to unanticipated liabilities.

It is likely that laws and regulations directly applicable to the Internet or to hosting and managed application service providers may be adopted. These laws may cover a variety of issues, including user privacy and the pricing, characteristics and quality of products and services. The adoption or modification of laws or regulations relating to commerce over the Internet could substantially impair the growth of our business or expose us to unanticipated liabilities. Moreover, the applicability of existing laws to the Internet and hosting and managed application service providers is uncertain. These existing laws could expose us to substantial liability if they are found to be applicable to our business. For example, we provide services over the Internet in many states in the United States and elsewhere and facilitate the activities of our customers in such jurisdictions. As a result, we may be required to qualify to do business, be subject to taxation or be subject to other laws and regulations in these jurisdictions, even if we do not have a physical presence, employees or property in those states.

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Risks Related to this Offering

The price of our common stock has been volatile, and may continue to experience wide fluctuations.

Since January 2003, our common stock has closed as low as \$1.02 per share and as high as \$9.97 per share. The trading price of our common stock has been and may continue to be subject to wide fluctuations due to the risk factors discussed in this section and elsewhere in this prospectus. Fluctuations in the market price of our common stock may cause you to lose some or all of your investment. In addition, should the market price of our common stock be below \$1.00 per share for an extended period, Nasdaq may delist our common stock, which would have an adverse effect on the trading of our common stock. On June 10, 2002, the listing of our common stock transferred from the Nasdaq National Market to the Nasdaq SmallCap Market because the market price of our common stock had failed to maintain compliance with the Nasdaq National Market's minimum \$1.00 per share continued listing requirement. We have applied for listing of our common stock on the American Stock Exchange to be effective upon completion of this offering. A delisting of our common stock from Nasdaq could materially reduce the liquidity of our common stock and result in a corresponding material reduction in the price of our common stock. In addition, any such delisting could harm our ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the potential loss of confidence by suppliers, customers and employees.

A large number of shares may be sold in the market following this offering, which may depress the market price of our common stock.

In recent years, our common stock has had limited trading activity. We cannot predict the extent to which investor interest in our stock will lead to the development of a more active trading market, how liquid that market might become or whether it will be sustained. As a result, sales of a substantial number of shares of our common stock in the public market following this offering, or the perception that such sales could occur, could cause the price of our common stock to decline. The number of shares of common stock available for sale in the public market is limited by restrictions under federal securities law and under lock-up agreements that the members of our Board of Directors, our executive officers and some of our stockholders have entered into with us or the underwriters. Those lock-up agreements restrict holders of approximately 23,496,859 shares of our common stock from selling, pledging or otherwise disposing of their shares for a period of 90 days after the date of this prospectus without the prior written consent of Thomas Weisel Partners LLC. However, Thomas Weisel Partners LLC may, in its sole discretion, release all or any portion of the common stock from the restrictions of the lock-up agreements at any time. Upon the expiration of the lock-up agreements, approximately 20,283,792 shares of our common stock previously covered by the lock-up agreements will be eligible for sale into the public market under Rule 144 of the Securities Act.

Anti-takeover provisions in our corporate documents may discourage or prevent a takeover.

Provisions in our certificate of incorporation and our by-laws may have the effect of delaying or preventing an acquisition or merger in which we are acquired or a transaction that changes our Board of Directors. These provisions:

authorize the board to issue preferred stock without stockholder approval;

prohibit cumulative voting in the election of directors;

limit the persons who may call special meetings of stockholders; and

establish advance notice requirements for nominations for the election of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

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The value of your investment in our common stock will be immediately and substantially diluted because the price you will pay for your shares in the offering is much greater than the tangible book value per share of our common stock.

As of April 30, 2004, we had a negative tangible book value per share of \$0.20, which represents the amount of our total tangible assets less our total liabilities, divided by the number of shares of our common stock outstanding. As a result, if you pay \$5.00 per share in this offering, your investment will be diluted by approximately \$4.11 per share and therefore, valued at only approximately \$0.89 per share. In the past, we have issued options and warrants to buy our common stock at prices below the offering price. You will experience further dilution to the extent that additional shares of our common stock are issued upon the exercise of outstanding stock options and warrants.

Our net tangible book value as of April 30, 2004, on a pro forma basis giving effect to the Surebridge acquisition, was \$(41,345,000), or \$(1.49) per share of common stock. After giving effect to this offering, net tangible book value per share, on a pro forma basis giving effect to the Surebridge acquisition, as of April 30, 2004 would have been approximately \$(0.23) per share, or approximately \$(0.13) per share if the underwriters exercise their option to purchase additional shares of our common stock in full in this offering. The increase in net tangible book value per share to existing stockholders would be approximately \$1.26 per share, or \$1.36 per share if the underwriters exercise their option to purchase additional shares of our common stock in full, and the dilution to new investors purchasing shares in this offering would be approximately \$5.23 per share, or approximately \$5.13 per share if the underwriters exercise their option to purchase additional shares of our common stock in full.

FORWARD-LOOKING STATEMENTS

Some of the statements under sections entitled Prospectus Summary, Management's Discussion and Analysis of Financial Condition and Results of Operations and Business and elsewhere in this prospectus and those made from time to time by us through our senior management constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance and involve known and may involve unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by forward-looking statements including, but not limited to prospects for future market growth. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, expect, plan, anticipate, intend, believe, potential, continue, or the negative terms or other comparable terminology. In evaluating these statements, you should specifically consider various factors, including the risks outlined under Risk Factors.

Although we believe that the expectations in the forward-looking statements contained in this prospectus are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These forward-looking statements are based on our current expectations, and we disclaim any obligation to update these forward-looking statements for subsequent events or to explain why actual results differ unless otherwise required by law. You should not place undue reliance on these forward-looking statements.

USE OF PROCEEDS

We expect to receive approximately \$33.5 million from the sale of shares of common stock by us in this offering, or \$36.8 million if the underwriters exercise their over-allotment option in full, based on the assumed offering price of \$5.00 per share and after deducting the underwriting discounts and commissions and estimated offering expenses that we are to pay. We will not receive any of the proceeds from any sale of shares of common stock by the selling stockholders in this offering.

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We intend to use our net proceeds from this offering for the following:

approximately \$3.3 million to repay the outstanding principal and accrued interest under our Loan and Security Agreement dated January 29, 2003 with Atlantic Investors, LLC, which bears interest at a rate of 8% per annum and is due and payable upon the earlier to occur of August 1, 2004 and five business days after our receipt of gross proceeds from a financing or a sale of assets of at least \$13 million;

approximately \$16.7 million for the repayment of a portion of the outstanding principal under the promissory notes issued to Surebridge; and

approximately \$13.5 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 the \$13.5 million.

Borrowings under the Loan and Security Agreement with Atlantic Investors were used primarily to repay amounts due to Unicorn Worldwide Holdings Limited, for costs associated with our acquisition of Avasta and for working capital. We intend to seek acquisitions of businesses, products and technologies that are complementary to our business, and a portion of our net proceeds from this offering may also be used for such acquisitions. While we engage from time to time in discussions with respect to potential acquisitions, we have no current plans, commitments or agreements with respect to any such acquisitions, and there can be no assurances that any acquisitions will be made.

The amounts and timing of our actual expenditures will depend on numerous factors, including the status of our product development efforts, sales and marketing activities, technological advances, and amount of cash generated or used by our operations. Our management will have considerable discretion in applying the net proceeds of this offering. Our net proceeds of this offering may be used for corporate purposes that do not enhance our results of operations or do not yield a favorable return. Pending the uses described above, we intend to invest our net proceeds in short-term, interest-bearing, investment-grade securities.

Table of Contents**PRICE RANGE OF COMMON STOCK**

Our common stock currently trades on the Nasdaq SmallCap Market under the symbol NAVI. Upon completion of this offering, we expect our common stock to be listed on the American Stock Exchange under the symbol NVE. For the period between October 22, 1999, the date of our initial public offering of our common stock, and June 7, 2002, our common stock was quoted on the Nasdaq National Market. On June 10, 2002, the listing of our common stock transferred from the Nasdaq National Market to the Nasdaq SmallCap Market because the market price of our common stock had failed to maintain compliance with the Nasdaq National Market's minimum \$1.00 per share continued listing requirement. The following table sets forth for the periods indicated below the high and low closing sale prices on the Nasdaq National Market and the Nasdaq SmallCap Market, as applicable. All share prices below have been adjusted to reflect the 1-for-15 reverse split of our common stock effected January 7, 2003.

	<u>High</u>	<u>Low</u>
Year Ended July 31, 2002		
First Quarter	\$ 12.30	\$ 2.25
Second Quarter	9.15	3.90
Third Quarter	5.40	3.15
Fourth Quarter	3.90	1.80
Year Ended July 31, 2003		
First Quarter	3.30	1.50
Second Quarter	4.35	1.78
Third Quarter	1.78	1.02
Fourth Quarter	3.60	1.26
Year Ending July 31, 2004		
First Quarter	5.02	2.32
Second Quarter	9.97	4.30
Third Quarter	7.30	4.39
Fourth Quarter (through June 28, 2004)	5.28	3.83

On June 28, 2004, the last sale price for our common stock as reported by the Nasdaq SmallCap Market was \$3.95 per share. As of June 17, 2004, we had 225 holders of record of our common stock.

DIVIDEND POLICY

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 accounts receivable financing agreement with Silicon Valley Bank, as described in the "Liquidity and Capital Resources" section of the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section included later in this prospectus. Any future determination related to dividend policy will be made, subject to the restrictions of the financing agreement with Silicon Valley Bank, at the discretion of our Board of Directors.

Table of Contents**DILUTION**

Our net tangible book value as of April 30, 2004 was \$(4,979,000), or \$(0.20) per share of common stock. Net tangible book value per share represents the amount of our total tangible assets less our total liabilities, divided by the number of shares of common stock outstanding.

After giving effect to the sale by us of 7,300,000 shares of common stock in this offering at an assumed offering price of \$5.00 per share, and after deducting the underwriting discount and commissions and estimated offering expenses payable by us, our adjusted net tangible book value as of April 30, 2004 would have been approximately \$28.5 million, or approximately \$0.89 per share. This amount represents an immediate increase in net tangible book value of approximately \$1.09 per share to our existing stockholders and an immediate dilution in net tangible book value of approximately \$4.11 per share to new investors purchasing shares of common stock in this offering at the assumed offering price. We determine dilution by subtracting the adjusted net tangible book value per share after this offering from the amount of cash that a new investor paid for a share of common stock. The following table illustrates this dilution on a per share basis:

Assumed offering price per share		\$ 5.00
Net tangible book value per share as of April 30, 2004	\$(0.20)	
Increase per share attributable to new investors	1.09	
Adjusted net tangible book value per share after this offering		0.89
Dilution in net tangible book value per share to new investors		\$4.11

If the underwriters exercise their option to purchase additional shares of our common stock in full in this offering, the net tangible book value per share after the offering would be approximately \$0.97 per share, the increase in net tangible book value per share to existing stockholders would be approximately \$1.17 per share and the dilution to new investors purchasing shares in this offering would be approximately \$4.03 per share.

Our net tangible book value as of April 30, 2004, on a pro forma basis giving effect to the Surebridge acquisition, was \$(41,345,000), or \$(1.49) per share of common stock. After giving effect to this offering, net tangible book value per share, on a pro forma basis giving effect to the Surebridge acquisition, as of April 30, 2004 would have been approximately \$(0.23) per share, or approximately \$(0.13) per share if the underwriters exercise their option to purchase additional shares of our common stock in full in this offering. The increase in net tangible book value per share to existing stockholders would be approximately \$1.26 per share, or \$1.36 per share if the underwriters exercise their option to purchase additional shares of our common stock in full, and the dilution to new investors purchasing shares in this offering would be approximately \$5.23 per share, or approximately \$5.13 per share if the underwriters exercise their option to purchase additional shares of our common stock in full.

Table of Contents**CAPITALIZATION****(In thousands)**

The following table sets forth our consolidated cash and cash equivalents and capitalization as of April 30, 2004:

on an actual basis,

on a pro forma basis to reflect the acquisition of substantially all of the assets and liabilities of Surebridge, and

on a pro forma basis as adjusted to give effect to this offering and the application of the proceeds to us after deducting fees, commissions and other expenses that we will pay and the repayment of approximately \$3.3 million of outstanding principal and accrued interest under our Loan and Security Agreement with Atlantic Investors, LLC and the repayment of approximately \$16.7 million of outstanding principal under the promissory notes issued to Surebridge.

You should read this table together with Use of Proceeds, Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited and unaudited consolidated financial statements and the related notes and the other financial information included elsewhere in this prospectus.

	As of April 30, 2004			
	Actual	Pro Forma	Effect of Offering	Pro Forma As Adjusted
			(Unaudited)	
Cash and cash equivalents	\$ 7,630	\$ 9,355	\$ 13,430	\$ 22,785
Accounts receivable financing line	\$ 15,786	\$ 15,786	\$	\$ 15,786
Current notes payable	1,048	4,666		4,666
Current note payable to Atlantic Investors	3,000	3,000	(3,000)	
Notes payable to Surebridge		39,300	(16,730)	22,570
Note to the AppliedTheory Estate	6,000	6,000		6,000
Long-term note payable	1,352	2,371		2,371
Total debt	27,186	71,123	(19,730)	51,393
Stockholders' equity:				
Preferred stock, \$0.01 par value; Authorized: 5,000 shares; Issued and outstanding: no shares at April 30, 2004 (actual, pro forma and pro forma as adjusted)				
Common stock, \$0.01 par value; Authorized: 395,000 shares (actual, pro forma and pro forma as adjusted); Issued and outstanding: 24,829 (actual); 27,829 (pro forma) and 35,129 (pro forma as adjusted)	249	279	73	352
Deferred compensation	(1,699)	(1,699)		(1,699)
Accumulated other comprehensive income	9	9		9
Additional paid-in capital	438,482	452,822	33,387	486,209
Accumulated deficit	(428,321)	(428,321)		(428,321)
Total stockholders' equity	8,720	23,090	33,460	56,550
Total capitalization	\$ 35,906	\$ 94,213	\$ 13,730	\$ 107,943

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following is the unaudited pro forma financial information included in this prospectus:

Pro Forma Condensed Combined Balance Sheet as of April 30, 2004 (unaudited)

Pro Forma Condensed Combined Statement of Operations for the three months ended April 30, 2004 (unaudited)

Pro Forma Condensed Combined Statement of Operations for the nine months ended April 30, 2004 (unaudited)

Pro Forma Condensed Combined Statement of Operations for the year ended July 31, 2003 (unaudited)

The unaudited pro forma condensed combined balance sheet as of April 30, 2004 combines the unaudited condensed consolidated balance sheet of NaviSite as of April 30, 2004 with the condensed consolidated balance sheet of Surebridge as of March 31, 2004.

The unaudited pro forma condensed combined statements of operations for the year ended July 31, 2003 (unaudited) combines the unaudited pro forma condensed consolidated statement of operations of NaviSite for the fiscal year ended July 31, 2003 with the unaudited condensed consolidated results of operations of Surebridge for the twelve months ended June 30, 2003. In addition, the unaudited pro forma condensed combined statements of operations for the three and nine months ended April 30, 2004 combine the unaudited condensed consolidated statement of operations of NaviSite for the three and nine months ended April 30, 2004 with the unaudited condensed consolidated statement of operations of Surebridge for the nine months ended March 31, 2004.

The unaudited pro forma condensed combined statements of operations for the year ended July 31, 2003 also gives pro forma effect to NaviSite's other recent acquisitions of ClearBlue Technologies, Inc., or CBT, Interliant, Inc., or Interliant, Conxion Corporation, or Conxion, and ClearBlue Technologies Management, Inc., or CBTM, as if they had occurred as of August 1, 2002.

The following is a summary of the additional acquisitions noted above for which pro forma effect is given in the unaudited pro forma condensed combined statements of operations for the year ended July 31, 2003 for the portion of the fiscal year ended July 31, 2003 that each respective company was not owned by NaviSite:

In August 2003, NaviSite acquired all of the outstanding shares of six wholly-owned subsidiaries of CBT with data centers in various U.S. locations and assumed the revenue and expense of four additional wholly-owned subsidiaries of CBT. Pursuant to the acquisition agreement, as amended, NaviSite had the right to acquire the four additional subsidiaries for no additional consideration at any time on or prior to August 8, 2005. In April 2004, NaviSite exercised its right to acquire the additional four subsidiaries and thereby acquired all of the outstanding shares of the additional four wholly-owned subsidiaries of CBT. This transaction was accounted for as a combination of entities under common control, similar to a pooling-of-interests, whereby the assets and liabilities of the ten wholly-owned subsidiaries of CBT (as described above) and NaviSite were combined at their historical amounts as of the date CBT had control of both entities (September 11, 2002). CBT's results of operations and cash flows for the eleven months ended July 31, 2003 are included in NaviSite's consolidated statements of operations and consolidated statements of cash flows for the year ended July 31, 2003. The subsidiaries of CBT that NaviSite acquired are now operated as wholly-owned subsidiaries of NaviSite.

In May 2003, NaviSite acquired assets of Interliant related to managed messaging, application hosting and application development services. Interliant's results of operations and cash flows for the two-and-one-half months ended July 31, 2003 are included in NaviSite's consolidated statement of operations and consolidated statement of cash flows for the year ended July 31, 2003. The Interliant business is now operated as a wholly-owned subsidiary of NaviSite.

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In April 2003, NaviSite acquired Conxion, a provider of application hosting, content and electronic software distribution and security services. Conxion's results of operations and cash flows for the four months ended July 31, 2003 are included in NaviSite's consolidated statement of operations and consolidated statement of cash flows for the year ended July 31, 2003. Conxion is operated as a wholly-owned subsidiary of NaviSite.

In December 2002, NaviSite acquired all of the issued and outstanding stock of CBTM, a wholly-owned subsidiary of CBT, NaviSite's then parent company which previously had acquired assets from the bankrupt estate AppliedTheory Corporation related to application management and application hosting services. As CBT had a controlling interest in both companies at the time of the combination, the transaction was accounted for as a combination of entities under common control, similar to a pooling-of-interests, whereby the assets and liabilities of CBTM and NaviSite were combined at their historical amounts as of the date CBT had control of both entities (September 11, 2002). CBTM's results of operations and cash flows for the eleven months ended July 31, 2003 are included in NaviSite's consolidated statements of operations and consolidated statements of cash flows for the year ended July 31, 2003. CBTM is operated as a wholly-owned subsidiary of NaviSite.

The unaudited pro forma financial information is not necessarily indicative of the results of operations or financial position of NaviSite had the transactions assumed therein occurred, nor are they necessarily indicative of the results of operations or financial position, which may be expected to occur in the future. Furthermore, the unaudited pro forma financial information is based on assumptions that NaviSite believes are reasonable and should be read in conjunction with NaviSite's Form 10-K for the fiscal year ended July 31, 2003 and Forms 10-Q for the fiscal quarters ended October 31, 2003, January 31, 2004 and April 30, 2004 previously filed.

Table of Contents**NAVISITE, INC. AND SUBSIDIARIES****PRO FORMA CONDENSED COMBINED BALANCE SHEET**(Unaudited)
(In thousands)

	Consolidated NaviSite April 30, 2004	Surebridge March 31, 2004	Pro Forma Adjustments April 30, 2004	Pro Forma Total April 30, 2004
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 7,630	\$ 1,725	\$	\$ 9,355
Accounts receivable, net	13,583	4,564		18,147
Due from related party	12	43		55
Prepaid expenses and other current assets	4,224	1,461		5,685
Total current assets	25,449	7,793		33,242
Property and equipment, net	15,388	7,782		23,170
Intangible assets, net	10,279	4,319		14,598
Goodwill	3,206	6,327	40,090(a)	49,623
Other assets	5,913	162		6,075
Restricted cash	1,253	475		1,728
Total assets	\$ 61,488	\$ 26,858	\$ 40,090	\$ 128,436
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS EQUITY (DEFICIT)				
Current liabilities:				
Accounts receivable financing line	\$ 15,786	\$	\$	\$ 15,786
Current notes payable	1,048	3,618		4,666
Capital lease obligations, current portion	2,418	139		2,557
Current note payable to related party	3,000			3,000
Accounts payable	3,856	4,778		8,634
Accrued expenses	13,628	1,943	500(b)	16,071
Deferred revenue	2,196	936		3,132
Customer deposits	135	250		385
Total current liabilities	42,067	11,664	500	54,231
Capital lease obligations, less current portion	830	24		854
Accrued impairment, less current portion	1,782			1,782
Note to AppliedTheory Estate	6,000			6,000
Notes payable	1,352	1,019	39,300(b)	41,671
Other long-term liabilities	737	71		808
Total liabilities	52,768	12,778	39,800	105,346
Redeemable convertible preferred stock		62,144	(62,144)(b)	
Stockholders' equity (deficit):				
Treasury stock		(465)	465(b)	
Common stock	249	109	(79)(b)	279
Deferred compensation	(1,699)			(1,699)
Accumulated other comprehensive income	9			9

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Additional paid-in capital	438,482	9,487	4,853(b)	452,822
Accumulated deficit	(428,321)	(57,195)	57,195(b)	(428,321)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total stockholders' equity (deficit)	8,720	(48,064)	62,434	23,090
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)	\$ 61,488	\$ 26,858	\$ 40,090	\$ 128,436
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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NAVISITE, INC. AND SUBSIDIARIES

PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Consolidated NaviSite Three Months Ended April 30, 2004	Surebridge Three Months Ended March 31, 2004	Pro Forma Adjustments	Pro Forma Three Months Ended April 30, 2004
Total revenue	\$20,185	\$11,940	\$	\$32,125
Cost of revenue:				
Cost of revenue	14,217	7,777		21,994
Impairment, restructuring and other				
Total cost of revenue	14,217	7,777		21,994
Gross profit	5,968	4,163		10,131
Operating expenses:				
Product development	230			230
Selling and marketing	1,848	1,961		3,809
General and administrative	6,097	2,534		8,631
Impairment, restructuring and other	206			206
Total operating expenses	8,381	4,495		12,876
Loss from operations	(2,413)	(332)		(2,745)
Other income (expense):				
Interest income	18	2		20
Interest expense	(656)	(89)	(983)(a)	(1,728)
Other income (expense), net	25			25
Net loss	\$ (3,026)	\$ (419)	\$ (983)	\$ (4,428)
Basic and diluted net loss per share	\$ (0.12)			\$ (0.16)
Weighted average basic and diluted shares used in computing net loss per share	24,809		3,000(b)	27,809

Table of Contents**NAVISITE, INC. AND SUBSIDIARIES****PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**

(Unaudited)
(In thousands, except per share data)

	Consolidated NaviSite Nine Months Ended April 30, 2004	Surebridge Nine Months Ended March 31, 2004	Pro Forma Adjustments	Pro Forma Nine Months Ended April 30, 2004
Total revenue	\$ 65,987	\$ 33,079	\$	\$ 99,066
Cost of revenue:				
Cost of revenue	48,899	22,925		71,824
Impairment, restructuring and other	633			633
Total cost of revenue	49,532	22,925		72,457
Gross profit	16,455	10,154		26,609
Operating expenses:				
Product development	890			890
Selling and marketing	5,724	6,533		12,257
General and administrative	16,342	8,633		24,975
Impairment, restructuring and other	1,608			1,608
Total operating expenses	24,564	15,166		39,730
Loss from operations	(8,109)	(5,012)		(13,121)
Other income (expense):				
Interest income	115	10		125
Interest expense	(1,935)	(250)	(2,948)(c)	(5,133)
Other income (expense), net	111			111
Net loss	\$ (9,818)	\$ (5,252)	\$ (2,948)	\$ (18,018)
Basic and diluted net loss per share	\$ (0.40)			\$ (0.65)
Weighted average basic and diluted shares used in computing net loss per share	24,685		3,000(b)	27,685

Table of Contents**NAVISITE, INC. AND SUBSIDIARIES****PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**(Unaudited)
(In thousands, except per share data)

	Consolidated NaviSite Twelve Months Ended July 31, 2003	Surebridge Twelve Months Ended June 30, 2003	CBT 8/1/02 - 8/31/02	CBTM 8/1/02 - 8/31/02	Conxion 8/1/02 - 3/31/03	Interliant 8/1/02 - 5/15/03	Pro Forma Adjustments	Pro Forma Year Ended July 31, 2003
Total revenue	\$ 76,591	\$ 34,343	\$ 1,437	\$ 2,536	\$ 12,241	\$ 20,654	\$	\$ 147,802
Total cost of revenue	70,781	22,386	1,263	1,850	19,057	11,517		126,854
Gross profit (deficit)	5,810	11,957	174	686	(6,816)	9,137		20,948
Operating expenses:								
Product development	950					958		1,908
Selling and marketing	5,960	6,702	9	157	4,104	1,853		18,785
General and administrative	20,207	9,728	237	500	1,590	16,479		48,741
Impairment, restructuring and other	8,882				(4,135)			4,747
Total operating expenses	35,999	16,430	246	657	1,559	19,290		74,181
(Loss) income from operations	(30,189)	(4,473)	(72)	29	(8,375)	(10,153)		(53,233)
Other income (expense):								
Interest income	851	102			99	32		1,084
Interest expense	(43,403)	(299)		(140)		(3,284)	(3,930)(c)	(51,056)
Other income (expense), net	(733)	(111)		(21)	(209)	6,149		5,075
Loss before income tax expense	(73,474)	(4,781)	(72)	(132)	(8,485)	(7,256)	(3,930)	(98,130)
Income tax expense	(153)	(237)						(390)
Net loss	\$ (73,627)	\$ (5,018)	\$ (72)	\$ (132)	\$ (8,485)	\$ (7,256)	\$ (3,930)	\$ (98,520)
Basic and diluted net loss per share	\$ (6.32)							\$ (6.72)
Weighted average basic and diluted shares used in computing net loss per share	11,654						3,000(b)	14,654

Table of Contents**NAVISITE, INC. AND SUBSIDIARIES****NOTES TO THE PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION****(Unaudited)****Pro Forma Adjustments and Assumptions****(a) Purchase Price Allocation**

The following represents the preliminary allocation of the estimated purchase price for NaviSite's acquisition of Surebridge over the historical net book values of the acquired assets and assumed liabilities of Surebridge as of the date of the pro forma balance sheet, and is for illustrative purposes only. Assuming the transaction occurred on April 30, 2004, the estimated purchase price allocation for the acquisition of Surebridge would have been as follows (in thousands):

Working capital, including cash acquired	\$ (3,871)
Property & equipment, net	7,782
Other non-current assets	4,956
Long-term debt	(1,019)
Non-current liabilities	(95)
Goodwill	46,417
	<hr/>
Purchase price	\$ 54,170
	<hr/>

The goodwill adjustment in the pro forma condensed combined balance sheet was determined as follows (in thousands):

Elimination of pre-existing Surebridge goodwill	\$ (6,327)
Goodwill resulting from the acquisition (see above)	46,417
	<hr/>
Goodwill adjustment	\$ 40,090
	<hr/>

The purchase price allocation for the acquisition of Surebridge is preliminary and is subject to adjustment upon finalization of the purchase accounting as of the date of consummation of the acquisition. In addition, NaviSite has not completed its valuation of intangible assets to be acquired. As a result, the final allocation of the excess of the purchase price over the book value of the net assets acquired could differ materially. Upon completion of its valuation of the intangible assets to be acquired, certain identifiable intangible assets may be recorded and would be subject to amortization. Assuming a five-year life, every \$1.0 million of identifiable intangible assets recorded would result in approximately \$200,000 of annual amortization expense in the pro forma statements of operations.

(b) Components of the Estimated Purchase Consideration

The pro forma financial information reflects NaviSite's acquisition of substantially all the assets and liabilities of Surebridge for consideration valued at approximately \$54.2 million. The pro forma adjustments reconcile the historical balance sheet of NaviSite to the allocated purchase price above and include the purchase consideration. The description of the components of the estimated purchase price consideration is as follows (in thousands):

Two promissory notes payable	\$ 39,300
Fair value of 3 million shares of NaviSite common stock	14,370
Estimated direct acquisition costs	500

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Total estimated purchase price

\$54,170

Table of Contents**NAVISITE, INC. AND SUBSIDIARIES****NOTES TO THE PRO FORMA CONDENSED COMBINED****FINANCIAL INFORMATION (Continued)**

The fair value of the shares of NaviSite common stock noted in the table above was determined as follows (in thousands, except per share value):

Issuance of 3 million shares	3,000
Per share price of NaviSite common stock at closing	\$ 4.79
	<u> </u>
Fair value of the common stock issued	\$ 14,370
	<u> </u>

The equity components of the common stock issued which is noted in the table above are as follows (in thousands):

Common stock (assumes \$.01 par value)	\$ 30
Additional paid-in capital	14,340
	<u> </u>
Fair value of the common stock issued	\$ 14,370
	<u> </u>

For pro forma purposes, all equity accounts of Surebridge were eliminated. The adjustments to both common stock and additional paid-in capital in the pro forma condensed combined balance sheet were determined as follows (in thousands):

Elimination of pre-existing Surebridge common stock	\$ (109)
Common stock (at par value) resulting from Navisite shares issued	30
	<u> </u>
Common stock adjustment	\$ (79)
	<u> </u>
Elimination of pre-existing Surebridge additional paid-in capital	\$ (9,487)
Additional paid-capital resulting from NaviSite shares issued	14,340
	<u> </u>
Additional paid-in capital adjustment	\$ 4,853
	<u> </u>

(c) Interest Expense on the Promissory Notes

Interest expense on the two promissory notes payable is calculated at 10% annually. The pro forma statements of operations assume interest will be paid in full. However, the promissory notes provide that no interest shall accrue or be payable on any principal paid within nine months. The interest expense recorded in the pro forma condensed combined statements of operations was calculated as follows (in thousands):

	Three Months Ended April 30, 2004	Nine Months Ended April 30, 2004	Year Ended July 31, 2003
	<u> </u>	<u> </u>	<u> </u>
Promissory notes principal	\$ 39,300	\$ 39,300	\$ 39,300

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Interest rate	10%	10%	10%
Interest expense recorded	\$ 983	\$ 2,948	\$ 3,930

Table of Contents**SELECTED CONSOLIDATED FINANCIAL DATA****(In thousands, except per share data)**

The following table provides selected consolidated financial data for the five years ended July 31, 2003 and the three and nine months ended April 30, 2004 and 2003 and for the three and nine months ended April 30, 2004 on a pro forma basis giving effect to the Surebridge acquisition. The statements of operations data for each of the three years ended July 31, 2003 and the balance sheet data as of July 31, 2003 and 2002 are derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The statements of operations data for each of the years ended July 31, 2000 and 1999 and the balance sheet data as of July 31, 2001, 2000 and 1999 shown below are derived from our audited consolidated financial statements, which are not included in this prospectus. The statements of operations data shown below for the three and nine months ended April 30, 2004 and 2003 and the balance sheet data as of April 30, 2004 are derived from our unaudited financial statements included elsewhere in this prospectus and, in the opinion of our management, include all adjustments, consisting principally of normal recurring adjustments, necessary for a fair presentation of such information when read in conjunction with our audited financial statements. In addition, the unaudited pro forma condensed combined statements of operations for the three and nine months ended April 30, 2004 combine the unaudited condensed consolidated statement of operations of NaviSite for the three and nine months ended April 30, 2004 with the unaudited condensed consolidated statement of operations of Surebridge for the three and nine months ended March 31, 2004. Our historical results are not necessarily indicative of the results of operations for future periods, and the results of operations for the three and nine months ended April 30, 2004 are not necessarily indicative of the results to be expected for the full year ending July 31, 2004. The following data is qualified in its entirety by and should be read together with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes appearing elsewhere in 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 Statements of Operations Data:

	Year Ended July 31,					Three Months Ended April 30,		Nine Months Ended April 30,		Pro Forma(2) Three Months Ended April 30,	Pro Forma(2) Nine Months Ended April 30,
	2003	2002	2001	2000	1999	2004	2003	2004	2003	2004	2004
						(Unaudited)		(Unaudited)		(Unaudited)	(Unaudited)
Revenue	\$ 75,281	\$ 40,968	\$ 66,358	\$ 24,870	\$ 3,461	\$ 20,173	\$ 19,620	\$ 65,975	\$ 52,942	\$ 31,886	\$ 98,285
Revenue, related parties	1,310	18,453	36,368	24,893	7,058	12		12	1,310	239	781
Total revenue	76,591	59,421	102,726	49,763	10,519	20,185	19,620	65,987	54,252	32,125	99,066
Cost of revenue	70,781	67,000	127,155	68,496	20,338	14,217	17,312	48,899			