

NAVISITE INC
Form DEF 14A
November 10, 2005

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934**

Filed by the Registrant ☐

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- ☐ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material under Rule 14a-12

NaviSite, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

☐ No fee required.

- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

(2) Aggregate number of securities to which transaction applies:

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- ☐ Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**400 Minuteman Road
Andover, Massachusetts 01810**

November 10, 2005

Dear NaviSite Stockholders:

I am pleased to invite you to attend the 2005 Annual Meeting of Stockholders of NaviSite, Inc. to be held on Thursday, December 8, 2005 at 9:00 a.m., local time, at The Nine Zero Hotel, 90 Tremont Street, Boston, Massachusetts 02108.

Specific details regarding admission to the meeting and the business to be conducted at the Annual Meeting are included in the accompanying Notice of Annual Meeting of Stockholders and Proxy Statement. We encourage you to carefully read these materials, as well as the enclosed Annual Report to Stockholders for the fiscal year ended July 31, 2005. NaviSite's Board of Directors recommends that you vote in favor of each of the director nominees and for each other proposal set forth in the Notice of Annual Meeting and Proxy Statement.

Your vote is important. Whether or not you plan to attend the Annual Meeting, I hope you will ensure that your shares are represented and voted at the Annual Meeting by completing and returning the enclosed proxy card. If you do attend the Annual Meeting, you may withdraw your proxy and vote in person if you so desire.

Thank you for your continued support.

Sincerely,

Arthur P. Becker
Chief Executive Officer and President

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**NAVISITE, INC.
400 Minuteman Road
Andover, MA 01810**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held Thursday, December 8, 2005**

To the Stockholders of NaviSite, Inc.:

Notice is hereby given that the Annual Meeting of Stockholders (the "Annual Meeting") of NaviSite, Inc., a Delaware corporation ("NaviSite"), will be held on Thursday, December 8, 2005 at 9:00 a.m., local time, at The Nine Zero Hotel, 90 Tremont Street, Boston, Massachusetts 02108, to consider and act upon the following matters:

(1) To elect six members of the Board of Directors of NaviSite (the "Board of Directors") to serve for a one-year term;

(2) To ratify the appointment of KPMG LLP as NaviSite's independent registered public accounting firm for the fiscal year ending July 31, 2006; and

(3) To transact such other business as may properly come before the meeting or any adjournment thereof. The Board of Directors has no knowledge of any other business to be transacted at the Annual Meeting.

A copy of NaviSite's Annual Report to Stockholders for the fiscal year ended July 31, 2005, which contains consolidated financial statements and other information of interest to stockholders, is included with this Notice and Proxy Statement.

Admission of stockholders to the Annual Meeting will be on a first-come, first-served basis, and picture identification will be required to enter the Annual Meeting. Each stockholder will be entitled to bring one guest to the Annual Meeting. An individual arriving without picture identification will not be admitted unless it can be verified that the individual is a NaviSite stockholder. Cameras, cellular phones, recording equipment and other electronic devices will not be permitted at the Annual Meeting. NaviSite reserves the right to inspect any persons or items prior to their admission to the Annual Meeting.

Only stockholders of record as of the close of business on Friday, October 28, 2005 are entitled to notice of, and to vote at, the Annual Meeting. All stockholders are cordially invited to attend the meeting.

By order of the Board of Directors,

Monique Cormier
Secretary

Andover, Massachusetts
November 10, 2005

YOUR VOTE IS IMPORTANT.

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY CARD AND PROMPTLY MAIL IT IN THE ENCLOSED RETURN ENVELOPE TO ASSURE REPRESENTATION OF YOUR SHARES AT THE ANNUAL MEETING. NO POSTAGE NEED BE AFFIXED IF THE PROXY CARD IS MAILED IN THE UNITED STATES.

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NAVISITE, INC.

PROXY STATEMENT

*Annual Meeting of Stockholders
To Be Held On Thursday, December 8, 2005*

General

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the Board of Directors or the Board) of NaviSite, Inc., a Delaware corporation (NaviSite), for use at NaviSite s 2005 Annual Meeting of Stockholders, which will be held on Thursday, December 8, 2005 (the Annual Meeting) at 9:00 a.m., local time, at The Nine Zero Hotel, 90 Tremont Street, Boston, MA 02108, and at any adjournments thereof, for the purposes set forth in the Notice of Annual Meeting of Stockholders (the Notice of Annual Meeting).

The Notice of Annual Meeting, this Proxy Statement, the accompanying proxy card and NaviSite s Annual Report to Stockholders for the fiscal year ended July 31, 2005 (the 2005 Annual Report) are being mailed to stockholders on or about November 15, 2005. NaviSite s principal executive offices are located at 400 Minuteman Road, Andover, Massachusetts 01810 and its telephone number is (978) 682-8300.

Solicitation

The cost of soliciting proxies, including expenses in connection with preparing and mailing this Proxy Statement, will be borne by NaviSite. NaviSite may engage a paid proxy solicitor to assist in the solicitation. Copies of solicitation materials will be furnished to brokerage houses, nominees, fiduciaries and custodians to forward to beneficial owners of NaviSite s common stock, \$.01 par value per share, held in their names. In addition to the solicitation of proxies by mail, NaviSite s directors, officers and other employees may, without additional compensation, solicit proxies by telephone, facsimile, electronic communication and personal interviews. NaviSite will also reimburse banks, brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to stockholders.

Record Date, Voting Securities and Votes Required

Only holders of record of NaviSite common stock as of the close of business on Friday, October 28, 2005 (the Record Date) will be entitled to receive notice of and vote at the Annual Meeting and any adjournments thereof. On the Record Date, NaviSite had approximately 28,487,260 shares of common stock issued and outstanding and entitled to be voted. The holders of common stock are entitled to one vote for each share held as of the Record Date on any proposal presented at the Annual Meeting.

A majority of the shares of common stock issued and outstanding and entitled to be voted at the Meeting will constitute a quorum at the Annual Meeting. Votes withheld, abstentions and broker non-votes shall be counted for purposes of determining the presence or absence of a quorum for the transaction of business at the Annual Meeting.

The affirmative vote of the holders of a plurality of the votes cast at the Annual Meeting is required for the election of directors (Proposal No. 1). The affirmative vote of the holders of a majority of the shares of NaviSite common stock present or represented by proxy and voting on the matter is required to ratify the appointment of KPMG LLP as NaviSite s independent registered public accounting firm for the fiscal year ending July 31, 2006 (Proposal No. 2).

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Shares which abstain from voting on a particular matter and shares held in street name by brokers or nominees who indicate on their proxies that they do not have discretionary authority to vote such shares as to a particular matter (broker non-votes) will not be counted as votes in favor of such matter and will also not be counted as votes cast or shares voting on such matter. Accordingly, neither abstentions nor broker non-votes will have any effect upon the outcome of voting with respect to the election of directors (Proposal No. 1), which requires a plurality of the votes cast, or the ratification of the appointment of KPMG LLP as NaviSite's independent registered public accounting firm (Proposal No. 2), which requires an affirmative vote of a majority of the shares of NaviSite common stock present or represented by proxy and voting on the matter.

An automated system administered by NaviSite's transfer agent tabulates the votes. The votes on each matter are tabulated separately.

To vote by mail, complete, date and sign the enclosed proxy card and return it in the enclosed envelope. No postage is necessary if the proxy card is mailed in the United States. If you hold your shares through a bank, broker or other nominee, they will give you separate instructions for voting your shares.

Proxies

Voting By Proxy

Voting instructions are included on your proxy card. If you properly complete, sign and date your proxy card and return it to us (in the postage prepaid envelope provided) in time to vote, one of the individuals named as your proxy will vote your shares as you have directed. If you sign and timely return your proxy card but do not indicate how your shares are to be voted with respect to one or more of the proposals to be voted on at the Annual Meeting, your shares will be voted for each of such proposals and in accordance with the judgment of the proxy holders as to any other matter that may be properly brought before the Annual Meeting, and the individuals named in the proxy card will have discretionary authority to vote upon any adjournment of the Annual Meeting.

Revoking Your Proxy

You may revoke your proxy at any time before it is voted by:

Notifying NaviSite's Secretary in writing at the principal executive offices of NaviSite located at 400 Minuteman Road, Andover, MA 01810, Attention: Secretary, before the Annual Meeting that you have revoked your proxy; or

By attending the Annual Meeting and voting in person at the Annual Meeting.

Voting in Person

If you plan to attend the Annual Meeting and wish to vote in person, we will give you a ballot at the meeting. However, if your shares are held in the name of your broker, bank or other nominee, you must bring a proxy from your nominee authorizing you to vote your street name shares held as of the Record Date.

Householding of Annual Meeting Materials

Some banks, brokers and other nominee record holders may be participating in the practice of householding proxy statements and annual reports. This means that only one copy of our Proxy Statement or 2005 Annual Report may have been sent to multiple stockholders in your household. We will promptly deliver a separate copy of either document to you if you write or call us at the following address or telephone number: Investor Relations Department, NaviSite, Inc., 400 Minuteman Road, Andover, Massachusetts 01810, telephone: (978) 682-8300. If you want to receive separate copies of the Proxy Statement or 2005 Annual Report in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker, or other nominee record holder, or you may contact NaviSite at the above address and telephone number.

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The following table sets forth certain information as of September 30, 2005 (unless otherwise indicated), with respect to the beneficial ownership of NaviSite common stock by the following:

each person known by NaviSite to beneficially own more than 5% of the outstanding shares of NaviSite common stock;

each of NaviSite's directors;

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

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

For purposes of the following table, beneficial ownership is determined in accordance with the rules promulgated by the Securities and Exchange Commission (the "SEC") and the information is not necessarily indicative of beneficial ownership for any other purpose. Except as otherwise noted in the footnotes to the table, NaviSite believes that each person or entity named in the table has sole voting and investment power with respect to all shares of NaviSite common stock shown as beneficially owned by them (or shares such power with his or her spouse). Under such rules, shares of NaviSite common stock issuable under options that are currently exercisable or exercisable within 60 days after September 30, 2005 ("Presently Exercisable Options") are deemed outstanding and are included in the number of shares beneficially owned by a person named in the table and are used to compute the percentage ownership of that person. These shares are not, however, deemed outstanding for computing the percentage ownership of any other person or entity. Unless otherwise indicated, the address of each person listed in the table is c/o NaviSite, Inc., 400 Minuteman Road, Andover, Massachusetts 01810.

The percentage ownership of NaviSite common stock of each person or entity named in the following table is based on 28,487,260 shares of NaviSite common stock outstanding as of September 30, 2005 plus any shares subject to Presently Exercisable Options held by such person.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	
	Number of Shares	Percentage of Class
5% Stockholders		
Atlantic Investors, LLC 20 East 66th Street New York, NY 10021	17,121,652(1)	60.1%
Hewlett-Packard Financial Services Company 420 Mountain Avenue Murray Hill, NJ 07974	4,416,592(2)	15.5%
Waythere, Inc.(3) c/o BG Affiliates One Beacon Street Suite 1500	11,472,846(3)	31.0%

Boston, MA 02108

Directors and Named Executive Officers

Andrew Ruhan	50,000(4)	*
Arthur P. Becker	668,631(5)	2.3%
Gabriel Ruhan	358,333(6)	1.2%
James Dennedy	80,138(6)	*
Thomas R. Evans	48,472(6)	*
Larry Schwartz	75,971(6)	*
John J. Gavin, Jr.	173,614(6)	*

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Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	
	Number of Shares	Percentage of Class
Kenneth Drake(7)	27,918(6)	*
Stephen Pace(8)		
All current executive officers and directors as a group (8 persons)	1,471,443(9)	5.0%

* Less than 1%.

- (1) Based on information provided by Atlantic Investors, LLC in a Form 4 dated July 28, 2004 filed with the SEC on July 30, 2004. Atlantic Investors, LLC is controlled by two managing members, Unicorn Worldwide Holdings Limited and Madison Technology LLC. Unicorn Worldwide Holdings Limited is jointly controlled by its Board members, Simon Cooper and Simon McNally. Mr. Becker is the managing member of Madison Technology LLC. Messrs. Cooper and McNally for Unicorn Worldwide Holdings Limited and Mr. Becker for Madison Technology LLC share voting and investment power over the securities held by Atlantic Investors, LLC. Mr. A. Ruhan holds a 10% equity interest in Unicorn Worldwide Holdings Limited, a managing member of Atlantic Investors, LLC. Atlantic Investors, LLC has informed us that the 17,121,652 shares of our common stock it holds is currently its sole investment.
- (2) Shares are held of record by Hewlett-Packard Financial Services Company, a wholly owned subsidiary of Hewlett-Packard Company, a widely held publicly traded company. Hewlett-Packard Company and Hewlett-Packard Financial Services Company may each be deemed the beneficial owner of these shares.
- (3) Formerly known as Surebridge, Inc. Includes 8,472,846 shares of common stock that may be issued upon conversion of the outstanding principal and accrued interest as of September 30, 2005 under the convertible promissory notes held by Waythere.
- (4) Consists of shares of common stock issuable upon the exercise of Presently Exercisable Options. Excludes 17,121,652 shares of common stock owned by Atlantic Investors, LLC and 426,134 shares of common stock owned by Global Unicorn Worldwide Holdings S.A.R.L., a wholly owned subsidiary of Unicorn Worldwide Holdings Limited, with respect to all of which Mr. A. Ruhan disclaims beneficial ownership. Mr. A. Ruhan holds a 10% equity interest in Unicorn Worldwide Holdings Limited, a managing member of Atlantic Investors, LLC.
- (5) Consists of 213,067 shares of common stock owned by Madison Technology LLC and 455,564 shares of common stock issuable upon the exercise of Presently Exercisable Options. Excludes 17,121,652 shares of common stock owned by Atlantic Investors, LLC with respect to which Mr. Becker disclaims beneficial ownership. Mr. Becker is the managing member of Madison Technology LLC, a managing member of Atlantic Investors, LLC.
- (6) Consists of shares of common stock issuable upon the exercise of Presently Exercisable Options.
- (7) Mr. Drake resigned as the General Counsel and Secretary of NaviSite effective July 4, 2005.
- (8) Mr. Pace resigned as the Senior Vice President, Sales and Marketing of NaviSite effective June 3, 2005.

- (9) Consists of 213,067 shares of common stock owned by Madison Technology LLC and 1,258,376 shares of common stock issuable upon the exercise of Presently Exercisable Options. Excludes 17,121,652 shares of common stock owned by Atlantic Investors, LLC with respect to which Messrs. A. Ruhan and Becker disclaim beneficial ownership, and 426,134 shares of common stock owned by Global Unicorn Worldwide Holdings S.A.R.L., a wholly owned subsidiary of Unicorn Worldwide Holdings Limited, with respect to which Mr. A. Ruhan disclaims beneficial ownership. Mr. A. Ruhan holds a 10% equity interest in Unicorn Worldwide Holdings Limited, a managing member of Atlantic Investors, LLC, and Mr. Becker is the managing member of Madison Technology LLC, a managing member of Atlantic Investors, LLC.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Pursuant to NaviSite's By-Laws, all of the directors are elected at each annual meeting of stockholders and hold office until his or her successor has been elected and qualified or until his or her earlier death, resignation or removal. The By-Laws further provide that the number of directors shall be determined from

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time to time by resolution of the Board of Directors or by the holders of shares representing a majority of the votes entitled to be cast by all stockholders in any annual election of directors.

The Board of Directors currently has six members. The current members of the Board of Directors are Messrs. Andrew Ruhan, Arthur P. Becker, James Dennedy, Thomas R. Evans, Gabriel Ruhan and Larry Schwartz.

The Board of Directors recommends that the six nominees named below be elected as directors of NaviSite. The persons named as proxies will vote to elect the six nominees named below as directors of NaviSite unless the proxy card is marked otherwise. Each nominee is presently serving as a director, has consented to being named in this Proxy Statement and has indicated his willingness to serve if elected. If for any reason any nominee should become unable or unwilling to serve, the persons named as proxies may vote the proxy for the election of a substitute nominee. The Board of Directors has no reason to believe that any nominee will be unable to serve.

Biographical and certain other information concerning NaviSite's nominees for re-election to the Board of Directors, each of whom is presently serving as a director, is set forth below. Information with respect to the number of shares of NaviSite common stock beneficially owned by each director, as of September 30, 2005, appears above in the section entitled "Security Ownership of Certain Beneficial Owners and Management." With the exception of Andrew Ruhan and Gabriel Ruhan, who are brothers, no director or executive officer is related by blood, marriage or adoption to any other director or executive officer.

Nominees for Election to the Board of Directors

Andrew Ruhan, age 43, has served as Chairman of the Board of NaviSite since September 2002. Mr. Ruhan is also a Managing Director of Bridgehouse Capital, a London-based private equity investment advisory firm. Since 2000, Mr. Ruhan has served as Chief Executive Officer of ClearBlue Technologies, Inc., a managed service provider and an affiliate of NaviSite (CBT). From 1998 to 2002, Mr. Ruhan was the co-founder and Chief Executive Officer of GlobalSwitch Group, a data center company in the United Kingdom.

Arthur P. Becker, age 55, has served as a director of NaviSite since September 2002 and its Chief Executive Officer and President since February 2003. Since 2000, Mr. Becker has served as Vice Chairman and a director of CBT. Mr. Becker is also a co-founder of Atlantic Investors, LLC, a holder of approximately 60% of the outstanding shares of NaviSite common stock as of the Record Date. From 1999 to February 2003, Mr. Becker was a private investor and since 1999 he has been the Managing Member of Madison Technology LLC, an investment fund that is focused on technology and telecommunications companies. Madison Technology LLC is a managing member of Atlantic Investors, LLC.

James Dennedy, age 40, has served as a director of NaviSite since January 2003. Since November 2004, Mr. Dennedy has been the President and Chief Executive Officer of Engyro Corporation, an enterprise systems and network management company. From September 2003 until November 2004, Mr. Dennedy served as a Managing Partner of Mitchell-Wright, LLC, a technology buy-out and investment company. From August 2002 to September 2003, Mr. Dennedy was the President of Strategic Software Holdings, LLC, an investment firm making equity investments and buyouts on behalf of itself and its investors in the enterprise software industry. From March 2001 to March 2002, Mr. Dennedy served as President of divine Managed Services, a technology services company. From March 1999 to March 2001, Mr. Dennedy served as Senior Vice President, Venture Capital and Private Equity Group, of marchFirst, Inc., an IT services and systems integration company.

Thomas R. Evans, age 51, has served as a director of NaviSite since October 2003. Since June 2004, Mr. Evans has been the Chief Executive Officer and President of Bankrate, Inc., an Internet-based consumer banking marketplace. Mr. Evans also serves on the Board of Directors of Bankrate. From September 2002 to June 2004, Mr. Evans was a private investor and consultant. From August 1999 to August 2002, Mr. Evans served as Chairman of the Board and Chief Executive Officer for Official Payments Corp., an online payment service for government taxes and fees.

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Gabriel Ruhan, age 41, has served as a director of NaviSite since October 2002. Since January 2004, Mr. Ruhan has been the Managing Director of Global Marine Systems Limited, a marine technology and engineering company specializing in the maintenance of submarine telecommunications cables. From April 2003 to December 2004, Mr. Ruhan served as NaviSite's Chief Operating Officer. From December 2002 until April 2003, Mr. Ruhan served as NaviSite's Executive Vice President for Business Development. From 1998 to 2002, Mr. Ruhan was Corporate Development Director of GlobalSwitch Group, a data center company in the United Kingdom. Mr. Ruhan is also a director of CBT and an employee of NaviSite Europe Ltd., one of NaviSite's subsidiaries located in the United Kingdom.

Larry Schwartz, age 42, has served as a director of NaviSite since May 2003. Since August 2004, Mr. Schwartz has served as the Chief Executive Officer of Bridgehouse Marine Limited, a company that acquires and manages companies providing marine services to the telecommunications and energy industries. In January 2004, Mr. Schwartz founded The Wenham Group, a private equity investment firm. From May 2000 to December 2003, Mr. Schwartz was the Senior Vice President and Chief Restructuring Officer for Genuity Inc., where Mr. Schwartz also served as a member of Genuity's senior management committee.

The Board of Directors recommends a vote FOR the election of the above-named nominees as directors of NaviSite.

PROPOSAL NO. 2 RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected KPMG LLP as NaviSite's independent registered public accounting firm to audit NaviSite's financial statements for the fiscal year ending July 31, 2006. KPMG LLP has audited the financial statements of NaviSite for each fiscal year since NaviSite's inception. If the stockholders do not ratify the selection of KPMG LLP as NaviSite's independent registered public accounting firm, the Audit Committee will reconsider its selection. Even if the appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in NaviSite's and its stockholders' best interests. A representative of KPMG LLP is expected to be present at the Annual Meeting and will have the opportunity to make a statement if he or she desires to do so and will be available to respond to appropriate questions from stockholders.

The Board of Directors recommends a vote FOR ratification of the selection of KPMG LLP as NaviSite's independent registered public accounting firm for the fiscal year ending July 31, 2006.

CORPORATE GOVERNANCE AND BOARD MATTERS

Independence of Members of the Board of Directors

Our Board of Directors has determined that our company is a Controlled Company, as defined in the rules of The Nasdaq Stock Market, Inc. because Atlantic Investors, LLC is the beneficial owner of more than 50% of our voting power. We therefore are exempt from certain independence requirements of the Nasdaq rules, including the requirement to maintain a majority of independent directors on our Board of Directors, an independent compensation committee (although we do have a Compensation Committee comprised of three independent directors) and a standing nominating committee or committee performing a similar function.

To increase the quality of the Board's oversight and to lessen the possibility of damaging conflicts of interest, the Board intends to have at least three independent directors, as defined from time to time by The Nasdaq Stock Market, by law or by any rule or regulation of any other regulatory body or self-regulatory body applicable to NaviSite. No director will be considered independent unless the Board of Directors affirmatively determines that the director has no material relationship with NaviSite (either directly or as a

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partner, shareholder or officer of an organization that has a relationship with NaviSite). The Board of Directors has determined that each of Messrs. James Dennedy, Thomas Evans and Larry Schwartz is an independent director as defined in the rules of The Nasdaq Stock Market, and none of Messrs. Dennedy, Evans and Schwartz has a material relationship with NaviSite other than by virtue of his service on the Board of Directors.

Board and Committee Meetings

The Board of Directors held 10 meetings during the fiscal year ended July 31, 2005. Each incumbent director attended at least 75% of the aggregate number of meetings of the Board of Directors and of the committees on which he served. NaviSite strongly encourages all directors to attend the annual meeting of stockholders. All members of the Board of Directors attended the 2004 Annual Meeting of Stockholders.

Committees of the Board of Directors

The Board of Directors has designated two principal standing committees, an audit committee (the Audit Committee) and a compensation committee (the Compensation Committee). The current members of the Audit Committee and the Compensation Committee are identified in the following table:

Name	Audit Committee	Compensation Committee
James Dennedy	Chair	X
Thomas R. Evans	X	X
Larry Schwartz	X	Chair

Audit Committee

The Audit Committee assists the Board of Directors in fulfilling its responsibilities to stockholders concerning NaviSite's financial reporting and internal controls. The Audit Committee facilitates open communication among the Audit Committee, Board of Directors, NaviSite's independent registered public accounting firm and management. The Audit Committee discusses with management and NaviSite's independent registered public accounting firm the financial information developed by NaviSite, NaviSite's systems of internal controls and NaviSite's audit process. The Audit Committee is solely and directly responsible for appointing, evaluating, retaining, and, where necessary, terminating the engagement of NaviSite's independent registered public accounting firm. The independent registered public accounting firm meets with the Audit Committee (both with and without the presence of NaviSite's management) to review and discuss various matters pertaining to the audit, including NaviSite's financial statements, the report of the independent registered public accounting firm on the results, scope and terms of their work, and their recommendations concerning the financial practices, controls, procedures and policies employed by NaviSite.

The Audit Committee preapproves all audit services to be provided to NaviSite by the principal auditor and all other services (including reviewing, attestation and non-audit services) to be provided to NaviSite by the independent registered public accounting firm.

The Audit Committee is charged with establishing procedures for (i) the receipt, retention and treatment of complaints received by NaviSite regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by employees of NaviSite of concerns regarding questionable accounting or auditing matters. The Audit Committee reviews all related party transactions on an ongoing basis, and all such transactions must be approved by the Audit Committee. The Audit Committee is authorized, without further action by the Board of Directors, to engage independent legal, accounting and other advisors as it deems necessary or appropriate to carry out its responsibilities. The Board of Directors has adopted a written charter for the Audit Committee.

The Board of Directors has determined that all of the members of the Audit Committee are independent as defined under the rules of The Nasdaq Stock Market, and that the Audit Committee members meet the

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independence requirements contemplated by Rule 10A-3 under the Securities Exchange Act of 1934. During the last fiscal year, the Audit Committee held five meetings.

Compensation Committee

The Compensation Committee of the Board of Directors determines salaries, incentives and other forms of compensation for the Chief Executive Officer and the executive officers of NaviSite and reviews and makes recommendations to the Board of Directors with respect to director compensation. In addition, the Compensation Committee administers NaviSite's stock incentive compensation and equity-based plans. The Board of Directors has adopted a written charter for the Compensation Committee. During the last fiscal year, the Compensation Committee held five meetings.

Nominating Committee

We are a Controlled Company, as defined in the rules of The Nasdaq Stock Market, Inc. because Atlantic Investors, LLC is the beneficial owner of more than 50% of our voting power. Therefore, we are exempt from certain independence requirements of the Nasdaq rules, including the requirement to maintain a standing nominating committee or committee performing a similar function, and as such we do not have a separate nominating committee.

The Board serves the function that would otherwise be provided by a separate nominating committee. Each member of the Board of Directors participates in the consideration of director nominees. Generally, the Board of Directors identifies candidates for director nominees in consultation with management and the independent members of the Board, through the use of search firms or other advisers, through the recommendations submitted by stockholders or through such other methods as the Board of Directors deems to be helpful to identify candidates. Once candidates have been identified, the Board of Directors confirms that the candidates meet the qualifications for director nominees established by the Board. The Board of Directors may gather information about the candidates through interviews, questionnaires, background checks, or any other means that the Board of Directors deems to be helpful in the evaluation process. The Board of Directors meets to discuss and evaluate the qualities and skills of each candidate, both on an individual basis and taking into account the overall composition and needs of the Board.

In considering whether to include any particular candidate in the Board's slate of recommended director nominees, the Board will consider the candidate's integrity, education, business acumen, knowledge of NaviSite's business and industry, age, experience, diligence, conflicts of interest and the ability to act in the interests of all stockholders. The Board does not assign specific weights to particular criteria and no particular criterion is a prerequisite for each prospective nominee. NaviSite believes that the backgrounds and qualifications of its directors, considered as a group, should provide a composite mix of experience, knowledge and abilities that will allow the Board to fulfill its responsibilities.

The Board of Directors will consider director candidates who are recommended by the stockholders of NaviSite. Such recommendation for nomination must be in writing and include the following:

Name and address of the stockholder making the recommendation;

Number of shares of NaviSite common stock that are owned beneficially and held of record by such stockholder;

Name and address of the individual recommended for consideration as a director nominee;

Principal occupation and experience of the director nominee;

Total number of shares of NaviSite common stock that will be voted for the director nominee by the stockholder making the recommendation; and

A written statement from the stockholder making the recommendation stating whether the director nominee has indicated his or her willingness to serve if elected and why such recommended candidate would be able to fulfill the duties of a director.

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Nominations must be sent to the attention of the Secretary of NaviSite by U.S. mail to NaviSite, Inc., 400 Minuteman Road, Andover, Massachusetts 01810. The Secretary will then provide the nomination to the Board for consideration. Assuming that the required material has been provided on a timely basis, the Board of Directors will evaluate stockholder-recommended candidates by following substantially the same process, and applying substantially the same criteria, as it follows for candidates submitted by others.

Stockholder Communications with the Board of Directors

Stockholders may communicate with the Board of Directors by sending written communications to the Board of Directors or any individual member of the Board of Directors to the following address: Board of Directors, c/o Secretary, NaviSite, Inc., 400 Minuteman Road, Andover, Massachusetts 01810. The Secretary will forward all such correspondence accordingly, except for mass mailings, job inquiries, surveys, business solicitations or advertisements, personal grievances, matters as to which NaviSite tends to receive repetitive or duplicative communications, or patently offensive or otherwise inappropriate material.

ADDITIONAL INFORMATION**Management**

Officers are appointed annually by the Board and serve at the discretion of the Board. Set forth below is information regarding the current executive officers of NaviSite.

Name	Age	Position
Arthur P. Becker	55	Chief Executive Officer, President and Director
John J. Gavin, Jr.	50	Chief Financial Officer and Treasurer
Monique Cormier	37	General Counsel and Secretary

Arthur P. Becker has served as a director of NaviSite since September 2002 and its Chief Executive Officer and President since February 2003. Since 2000, Mr. Becker has served as Vice Chairman and a director of CBT. Mr. Becker is also a co-founder of Atlantic Investors, LLC, a holder of approximately 60% of the outstanding shares of NaviSite common stock as of the Record Date. From 1999 to February 2003, Mr. Becker was a private investor and since 1999 he has been the Managing Member of Madison Technology LLC, an investment fund that is focused on technology and telecommunications companies. Madison Technology LLC is a managing member of Atlantic Investors, LLC.

John J. Gavin, Jr. has served as our Chief Financial Officer since May 2004. From January 2002 to April 2004, Mr. Gavin was a private investor. From February 2000 through December 2001, Mr. Gavin served as the Senior Vice President and Chief Financial Officer of Cambridge Technology Partners, which was acquired by Novell, Inc. Prior to his work at Cambridge Technology Partners, Mr. Gavin spent twelve years at Data General Corporation rising through the financial organization to Vice President and Chief Financial Officer. Mr. Gavin also spent ten years at Price Waterhouse LLP in various accounting and audit positions including serving as Senior Manager in charge of multi-national audits. From October 2001 until April 2005, Mr. Gavin served on the Board of Directors of Ascential Software Corporation, an enterprise software company providing data integration and management solutions. Mr. Gavin is a certified public accountant.

Monique Cormier has served as the General Counsel and Secretary of NaviSite since August 2005. From August 2004 to August 2005, Ms. Cormier served as Associate General Counsel for NaviSite. From September 2000 to October 2003, Ms. Cormier served as a Corporate Associate for Gunderson Dettmer, LLP, a full service law firm. During 2004, Ms. Cormier served as a contract attorney in different temporary positions on a short-term basis.

Director Compensation

On September 27, 2005, the Board of Directors adopted a new policy with respect to the compensation of the independent directors of the Board and the Chairman of the Board. The new policy provides that each

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independent director and the Chairman of the Board shall be paid an annual fee of \$20,000. In addition, (i) the Chairperson of the Audit Committee and of the Compensation Committee will each receive an additional annual fee of \$5,000, (ii) each member of the Audit Committee and the Compensation Committee, other than the Chairman, will receive an additional annual fee of \$3,000, and (iii) the Chairman of the Board will receive an additional annual fee of \$7,000. Upon initial election to the Board, each independent director and the Chairman of the Board will receive an initial stock option of 50,000 shares of NaviSite common stock, which stock option will vest monthly over a period of three years. Upon re-election to the Board, each independent director and the Chairman of the Board will receive a stock option for 15,000 shares of NaviSite common stock, which stock option will vest monthly over a period of 12 months. The Chairman of the Audit Committee and the Compensation Committee will not receive any additional stock options by virtue of his position as a committee Chairman.

During the 2005 fiscal year, Messrs. A. Ruhan, G. Ruhan and Becker were not paid for service on the Board of Directors. In accordance with NaviSite's previous director compensation policy, upon re-election to the Board of Directors, each of Messrs. Evans, Dennedy and Schwartz received an option to purchase 15,000 shares of NaviSite common stock on December 9, 2004 at a purchase price per share of \$2.38. The option vests monthly over a period of 12 months. In addition, upon Mr. Dennedy's re-election as the Chairperson of the Audit Committee and upon Mr. Schwartz's re-election as the Chairperson of the Compensation Committee, each of Messrs. Dennedy and Schwartz was granted an option to purchase 10,000 shares of NaviSite common stock on December 9, 2004 at a purchase price of \$2.38. The option vests monthly over a period of 12 months. NaviSite also paid each of Messrs. Evans, Dennedy and Schwartz an aggregate of \$11,250 during the 2005 fiscal year. Of the \$11,250 paid to the directors in the 2005 fiscal year, \$4,375 was earned in the 2004 fiscal year and \$6,875 was earned in the 2005 fiscal year.

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

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

Executive Compensation*Summary Compensation*

The following table sets forth certain summary information with respect to the compensation paid during the fiscal years ended July 31, 2005, 2004 and 2003 earned by each of (i) all individuals who served as the Chief Executive Officer during the fiscal year ended July 31, 2005, (ii) one other executive officer who was serving as an executive officer on July 31, 2005 whose total annual salary and bonus for fiscal year 2005 exceeded \$100,000, and (iii) two former executive officers who would have been among the most highly compensated executive officers during fiscal year 2005 had they remained executive officers as of July 31, 2005 (collectively, the *Named Executive Officers*). In the table below, columns required by the regulations of the SEC have been omitted where no information was required to be disclosed under those columns.

Table of Contents**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation
		Salary (\$)	Bonus (\$)	Awards Securities Underlying Options
Arthur P. Becker	2005	275,000		500,000
Chief Executive Officer and President	2004	275,000		460,000
	2003	121,635		40,000
John J. Gavin, Jr.	2005	250,000		300,000
Chief Financial Officer and Treasurer	2004	50,800		200,000
Kenneth Drake	2005	185,989		100,000
Former General Counsel and Secretary	2004	155,769		80,000
Stephen Pace	2005	331,277	30,000	90,000
Former Senior Vice President, Sales and Marketing				

Option Grants During the Fiscal Year Ended July 31, 2005

The following table sets forth information regarding options to purchase NaviSite common stock granted to the Named Executive Officers during the fiscal year ended July 31, 2005. NaviSite has never granted any stock appreciation rights.

STOCK OPTION GRANTS IN THE FISCAL YEAR ENDED JULY 31, 2005

Name	Individual Grants			Potential Realizable		
	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price	Value at Assumed		
				Annual Rates of Stock Price Appreciation for		
				Option Term (\$)(1)		
	(#)		(Per Share) (\$)	Date	5%	10%
Arthur P. Becker	500,000(2)	10.21%	1.58	3/31/2015	496,655	1,258,522
John J. Gavin, Jr.	50,000(3)	1.02%	2.62	9/28/2014	82,385	208,780
	250,000(2)	5.10%	1.58	3/31/2015	248,327	629,261
Kenneth Drake	20,000(3)	0.41%	2.62	9/28/2014	32,954	83,512
	80,000(2)	1.63%	1.58	3/31/2015	79,465	201,363
Stephen Pace	90,000(2)	1.84%				