

NAVISITE INC
Form 8-K
December 22, 2010

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

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

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

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

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

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

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

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

Item 2.01 Completion of Acquisition or Disposition of Assets.

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

Item 9.01 Financial Statements and Exhibits.

(b) Pro forma financial information.

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

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

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

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

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

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

Basic and diluted net loss per common share:

| | | |
|--|-----------|-----------|
| Net income (loss) attributable to common stockholders | \$ (0.06) | \$ (0.07) |
|--|-----------|-----------|

| | | |
|---|--------|--------|
| Basic and diluted weighted average number of common shares outstanding | 36,979 | 36,979 |
|---|--------|--------|

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

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

| | | | | | | |
|--|----|---------|----|-------|----|---------|
| Net income (loss) attributable to common stockholders | \$ | (3,283) | \$ | (216) | \$ | (3,499) |
|--|----|---------|----|-------|----|---------|

Basic and diluted net loss per common share:

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

| | | | | |
|--|----|--------|----|--------|
| Net income (loss) attributable to common stockholders | \$ | (0.09) | \$ | (0.09) |
|--|----|--------|----|--------|

| | | | | |
|---|--|--------|--|--------|
| Basic and diluted weighted average number of common shares outstanding | | 36,004 | | 36,004 |
|---|--|--------|--|--------|

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

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

Gain on sale of discontinued operations, net of income taxes

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

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

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

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

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NaviSite, Inc.

Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

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

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

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NaviSite, Inc.

Date: December 22, 2010

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

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EXHIBIT INDEX

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