

NAVISITE INC
Form S-3
November 23, 2007

Table of Contents

As filed with the U.S. Securities and Exchange Commission on November 23, 2007

Registration No. 333-_____

**U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**FORM S-3
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)

Monique Cormier, Esq.
General Counsel and Secretary
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)

With a copy to:
Thomas B. Rosedale, Esq.
BRL Law Group LLC
31 St. James Avenue
Boston, Massachusetts 02116
(617) 399-6931

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

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, 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, please check the following box and list the Securities Act registration statement number of the earlier effective

registration statement for the same offering. o

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

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. o

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

CALCULATION OF REGISTRATION FEE

TITLE OF SHARES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SHARE	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
Series A Convertible Preferred Stock, \$0.01 par value per share	3,125,000 ⁽¹⁾	\$ 8.00 ⁽²⁾	\$25,000,000.00 ⁽²⁾	\$ 768
Common Stock, \$0.01 par value per share	4,040,203 ⁽³⁾	\$ 8.51 ⁽⁴⁾	\$ 3,533,377.53 ⁽⁴⁾	\$109

(1) The Registrant has completed a transaction in which it issued shares of the Registrant's Series A Convertible Preferred Stock, \$0.01 par value per share. The Registrant is registering for resale 3,125,000 shares of the Registrant's Series A Convertible Preferred Stock. Pursuant to Rule 416 under the Securities Act of 1933, the shares being registered

hereunder
include such
indeterminate
number of
shares of
Series A
Convertible
Preferred Stock
as may be
issuable with
respect to the
shares being
registered
hereunder as a
result of stock
dividends or
similar
transactions
affecting the
shares to be
offered by the
selling
stockholders.

- (2) Estimated solely for the purpose of calculating the registration fee, in accordance with Rule 457(o) under the Securities Act of 1933, as amended.
- (3) The Registrant is registering for resale
 - (i) 3,625,000 shares of the Registrant's Common Stock, which represents the underlying shares of Common Stock issuable upon conversion of the Series A

Convertible Preferred Stock and (ii) 415,203 shares of the Registrant's Common Stock issuable upon exercise of two warrants. Such amount includes up to 500,000 shares of Common Stock, part or all of which may become issuable pursuant to adjustments to the conversion price of the Series A Convertible Preferred Stock. Pursuant to Rule 416 under the Securities Act of 1933, the shares being registered hereunder include and such indeterminate number of shares of Common Stock as may become issuable pursuant to antidilution provisions of the warrants or may be issuable with respect to the shares being registered hereunder as a result of stock splits, stock dividends, recapitalization

or similar transactions affecting the shares to be offered by the selling stockholders.

- (4) Estimated solely for the purpose of calculating the registration fee and based on the average of the high and low prices of the Registrant's Common Stock on the Nasdaq Capital Market on November 21, 2007 in accordance with Rule 457(c) under the Securities Act of 1933, as amended. Pursuant to Rule 457(i), no additional registration fee is required for the Common Stock issuable upon conversion of the Series A Convertible Preferred Stock because no additional consideration will be received in connection with any such conversion.

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 the Registration Statement shall become effective on such date as the Commission, acting

pursuant to said Section 8(a), may determine.

Table of Contents

PROSPECTUS

NaviSite, Inc.
3,125,000 Shares of Series A Convertible Preferred Stock, \$0.01 par value per share
3,625,000 Shares of Common Stock, \$0.01 par value per share, issuable upon
conversion of the Series A Convertible Preferred Stock
415,203 Shares of Common Stock, \$0.01 par value
per share

This prospectus relates solely to the resale from time to time of:

up to 3,125,000 shares of Series A Convertible Preferred Stock, \$0.01 par value per share (the Preferred Stock) of the Company issued and sold to twelve selling stockholders;

up to 3,625,000 shares of our common stock, \$0.01 par value per share (the Common Stock) issuable upon conversion of the Preferred Stock by twelve selling stockholders; and

415,203 shares of our Common Stock issuable upon exercise of warrants issued by the Company to two selling stockholders.

Shares of Preferred Stock shall be entitled to receive annual dividends as follows: (i) 8% until September 15, 2008; (ii) 10% from September 16, 2008 until March 15, 2009; and (iii) 12% thereafter. Such dividends will be paid in kind in the form of shares of Preferred Stock. Shares of Preferred Stock will be convertible into a number of shares of Common Stock equal to the redemption price then in effect divided by the conversion price then in effect. Shares of Preferred Stock are not currently convertible and will not be convertible until the earlier of (i) March 15, 2009 or (ii) a default under the Company's Certificate of Designation of Rights, Preferences, Privileges and Restrictions of Series A Convertible Preferred Stock of NaviSite, Inc. (the Certificate of Designation). Under certain circumstances, the Company must redeem the outstanding shares of Preferred Stock. At any time, the Company has the option to redeem the outstanding shares of Preferred Stock at the then-applicable redemption price. For a detailed description of the Preferred Stock, see Description of Capital Stock beginning on page 19.

All of the shares being offered by this prospectus are being offered by the selling stockholders named in this prospectus. This offering is not being underwritten. We will not receive any proceeds from the sale of the shares of our Preferred Stock or Common Stock in this offering. Upon any exercise of the warrants by payment of cash, however, we will receive the exercise price of such warrant, which is \$0.01 per share. The selling stockholders identified in this prospectus, or their pledgees, donees, transferees or other successors-in-interest, may offer the shares of Preferred Stock or Common Stock or interests therein from time to time through public or private transactions at prevailing market prices, at prices related to prevailing market prices or at privately negotiated prices. The prices at which the selling stockholders may sell the shares may be determined by the prevailing market price for the shares at the time of sale, may be different than such prevailing market prices or may be determined through negotiated transactions with third parties.

Our Common Stock is traded on the Nasdaq Capital Market under the symbol NAVI . On November 21, 2007, the closing sale price of our Common Stock on the Nasdaq Capital Market was \$8.41 per share. You are urged to obtain current market quotations for our Common Stock.

The shares of Preferred Stock sold using this prospectus will not be tradeable on the Nasdaq Capital Market and we do not intend to list the Preferred Stock on any national securities exchange or automated quotation system.

INVESTING IN OUR PREFERRED STOCK OR OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE RISK FACTORS BEGINNING ON PAGE 8.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation

to the contrary is a criminal offense.

The date of this prospectus is November 23, 2007.

TABLE OF CONTENTS

<u>Prospectus Summary</u>	1
<u>Risk Factors</u>	8
<u>Ratio of Earnings to Fixed Charges</u>	17
<u>Special Note Regarding Forward-Looking Information</u>	17
<u>Use of Proceeds</u>	18
<u>Selling Stockholders</u>	18
<u>Description of Capital Stock</u>	21
<u>Transfer Agent and Registrar</u>	25
<u>Plan of Distribution</u>	25
<u>Legal Matters</u>	28
<u>Experts</u>	28
<u>Where You Can Find More Information</u>	28
<u>Incorporation of Certain Information by Reference</u>	29
<u>EX-5.1 Opinion of BRL Law Group LLC.</u>	
<u>EX-12.1 Statement of Computation of Ratio of Earnings to Fixed Charges.</u>	
<u>EX-23.1 Consent of KPMG LLP.</u>	

ABOUT THIS PROSPECTUS

No person has been authorized to give any information or to make any representation other than those contained in this prospectus in connection with the offering made hereby, and if given or made, such information or representations must not be relied upon as having been authorized by NaviSite or the selling stockholders. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any security other than the securities covered by this prospectus, nor does it constitute an offer to, or solicitation of, any person in any jurisdiction in which such offer or solicitation may not lawfully be made.

Table of Contents**PROSPECTUS SUMMARY**

You should read the following summary together with the more detailed information appearing elsewhere in this prospectus and the financial statements and related notes and other information incorporated by reference in this prospectus. You should carefully consider, among other things, the matters discussed in Risk Factors before investing in our Preferred Stock or Common Stock. All references to we, our, us, and NaviSite refer to NaviSite, Inc. and its direct and indirect subsidiaries.

Our Business

NaviSite is an application management and internet solutions provider to middle market companies. We offer a range of Enterprise Resource Planning (ERP) application solutions, custom applications, managed infrastructure services, hosting services, co-location, content delivery and consulting to more than 1,400 customers helping them to achieve superior business results. Our goal is to be the leading provider of managed application services to the mid-market.

Our core competencies are to customize, implement and support outsourced ERP solutions. These packaged, third party applications include Oracle e-Business Suite, PeopleSoft Enterprise, Siebel, JD Edwards, Fusion, Lawson, Kronos and Microsoft Dynamics. By managing both the application and infrastructure, we are able to address one the key challenges faced by mid-market IT organizations today that of increasing complexity, competitive pressures and declining or limited resources.

We provide our services from a global platform of 15 data centers in the United States, one in the United Kingdom and a Network Operations Center in India. Using this platform, we leverage innovative and scalable uses of technology along with subject matter expertise of our professional staff to deliver what we believe are cost-effective, flexible solutions that provide responsive and predictable levels of service to meet our customers business needs. Combining our technology, domain expertise and a competitive fixed cost infrastructure, we demonstrate to our customers the cost and functional advantages of outsourcing with a proven partner like NaviSite. We are dedicated to delivering quality services and meeting rigorous standards including maintenance of SAS 70 Type II compliance and Microsoft Gold and Oracle Certified Partner certifications.

In addition to delivering packaged application support, we are able to leverage our application services platform, NaviView™, to enable our partners software to be delivered on-demand, providing them with an alternative delivery model to the traditional licensed software model. As the platform provider for an increasing number of independent software vendors (ISV), we enable solutions and services to a wider and growing customer base.

Our services include:

ERP Application Management

ERP Application management services Customer defined services for specific packaged applications.

Applications include:

Oracle e-Business Suite

PeopleSoft Enterprise

Siebel

JD Edwards

Oracle Fusion

Lawson M3 and S3

Kronos

Microsoft Dynamics

Table of Contents

Services include implementation, upgrade support, monitoring, diagnostics, problem resolution and functional end-user support.

Hosting Services

Managed Hosting Services Hardware and software support delivered from one of our 16 data centers. Services include dedicated and virtualized hosting, business continuity and disaster recovery, connectivity, content distribution, database administration and performance tuning, hardware management, monitoring, network management, security management, server and operating system management and storage management.

Software as a Service (SaaS) Enablement of Software as a Service to the ISV community. Services include SaaS starter kits and services specific to the needs of ISVs who offer their software in an on-demand or subscription mode.

Content Delivery The delivery of software electronically using NaviSite's accelerated content distribution technology.

Co-location Physical space offered in a data center. In addition to providing the physical space, NaviSite offers environmental support, specified power with back-up power generation and network connectivity options.

Professional Services

ERP Services Planning, implementation, optimization, enhancement and upgrade support for third party ERP applications we support.

Custom Development Services Planning, implementation, optimization and enhancement for custom applications that we or our customers have developed.

We provide these services to a range of vertical industries, including financial services, healthcare and pharmaceutical, manufacturing and distribution, publishing, media and communications, business services and public sector and software, through both our own sales force and sales channel relationships.

Our managed application and hosting services are facilitated by our proprietary NaviView™ collaborative application management platform. Our NaviView™ platform enables us to provide highly efficient, effective and customized management of enterprise applications and hosted infrastructure that we support as part of our service offering. Comprised of a suite of third-party and proprietary products, NaviView™ provides tools designed specifically to meet the needs of customers who outsource their IT needs. We also use this platform for electronic software distribution for software vendors and to enable software to be delivered on-demand over the Internet.

Supporting both our managed hosting services and applications services is a range of hardware and software technologies that are designed for the specific needs of our customers. NaviSite is a leader in using virtualized processing, storage and networking as a platform to optimize services for performance, cost and operational efficiency. Utilizing both hardware and software based virtualization strategies, NaviSite continues to innovate as technology develops and becomes available to IT organizations.

We believe that the combination of NaviView™, our dedicated and virtual platform, with our physical infrastructure and technical staff gives us a unique ability to provide on-demand application services for mid-market ERP application management and managed hosting customers. NaviView™ is application and operating platform neutral as its on-demand provisioning capability is not dependent on the individual software application. Designed to enable enterprise software applications to be provisioned and used as an on-demand solution, the NaviView™ technology allows us to offer new solutions to our software vendors and new products to our current customers.

We believe that our data centers and infrastructure have the capacity necessary to expand our business for the foreseeable future. Further, trends in hardware virtualization and the density of computing

Table of Contents

resources, which reduce the data center footprint, are favorable to NaviSite's services oriented offerings as compared with traditional co-location or managed hosting providers. Our services combine our developed infrastructure with established processes and procedures for delivering hosting and application management services. Our high availability infrastructure, high performance monitoring systems, and proactive and collaborative problem resolution and change management processes are designed to identify and address potentially crippling problems before they disrupt our customers' operations.

We currently service approximately 1,400 customers. Our hosted customers typically enter into service agreements for a term of one to three years, with monthly payments, that provide us with a recurring revenue base. Our revenue growth comes from adding new customers and delivering additional services to existing customers. Our recurring revenue base is affected by new customers and renewals and terminations with existing customers.

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, at which time ClearBlue Technologies, Inc. became our majority stockholder.

In December 2002, we acquired all of the issued and outstanding stock of ClearBlue Technologies Management, Inc., a subsidiary of ClearBlue Technologies, Inc., which previously had acquired assets from the bankrupt estate of AppliedTheory Corporation related to application management and application hosting services. This acquisition added application management and development capabilities to our managed application services.

In February 2003, we acquired Avasta, Inc., a provider of application management services, adding automated application and device monitoring software capabilities to our managed application services.

In April 2003, we acquired Conxion Corporation, a provider of application hosting, content and electronic software distribution and security services. This acquisition added proprietary content delivery software and related network agreements to our managed application services and managed infrastructure services.

In May 2003, we acquired assets of Interliant, Inc. related to managed messaging, application hosting and application development services. This acquisition added messaging-specific services and capabilities and IBM Lotus Domino expertise, and formed the core of our managed messaging services.

In August 2003, we acquired assets of CBT related to co-location, bandwidth, security and disaster recovery services, enhancing our managed infrastructure services and adding physical plant assets. Specifically, we acquired all of the outstanding shares of six wholly-owned subsidiaries of CBT with data centers located in Chicago, Illinois, Las Vegas, Nevada, Los Angeles, California, Milwaukee, Wisconsin, Oakbrook, Illinois, and Vienna, Virginia and assumed the revenue and expenses of four additional wholly-owned subsidiaries of CBT with data centers located in Dallas, Texas, New York, New York, San Francisco, California, and Santa Clara, California, which four entities we later acquired.

In June 2004, we completed the acquisition of substantially all of the assets and liabilities of Surebridge, Inc., a privately held provider of managed application services for mid-market companies. This acquisition broadened our managed application services, particularly in the areas of financial management, supply chain management, human resources management and customer relationship management.

In August 2007, we acquired the assets of Alabanza, LLC and Hosting Ventures, LLC and all of

Table of Contents

the issued and outstanding stock of Jupiter Hosting, Inc. These acquisitions provided additional managed hosting customers, proprietary software for provisioning and additional data center space in the San Francisco Bay Area market.

In September 2007, we acquired all of the issued and outstanding stock of netASPx, Inc by merger. Based in Minneapolis, Minnesota, the acquisition of netASPx, Inc. added functional expertise in the Lawson and Kronos ERP applications and 18,000 square feet of data center capacity in the Midwest.

Our Industry

The dramatic and continued growth in Internet use and the enhanced functionality, accessibility and security of Internet-enabled applications have made conducting business on the Internet a necessity in the mid-market. In addition, the challenges faced by mid-market companies have them increasingly looking to outsource IT services as an attractive alternative to traditional approaches of providing these functions in-house. Driven by the increased complexity of ERP applications, the costs of operating them and reduced resources and budget companies have to devote to these applications, companies are increasingly looking for cost-effective alternatives. We believe that an emerging and fast growing trend in the mid-market is the increased use of managed IT infrastructure and applications by companies to allow them to focus and enhance their core business operations, increase efficiencies and remain competitive. These applications extend beyond Web sites to business process software applications such as financial, email, enterprise resource planning, supply chain management and customer relationship management. Organizations have become increasingly dependent on these applications and they have evolved into important components of their businesses. In addition, we believe that the pervasiveness of the Internet and quality of network infrastructure, along with the dramatic decline in the pricing of computing technology and network bandwidth, have made the outsourced delivery model for application services an attractive choice for mid-market companies. We believe that the recent adoption of alternative software licensing models by software industry market leaders is driving other software vendors in this direction and, consequently, generating strong industry growth.

As enterprises seek to remain competitive and improve profitability, we believe they will continue to implement increasingly sophisticated applications and delivery models. Some of the potential benefits of these applications and delivery models include the ability to:

Increase business operating efficiencies and reduce costs by using best of breed applications;

Build and enhance customer relationships by providing Internet-enabled customer service and technical support;

Manage vendor and supplier relationships through Internet-enabled technologies, such as online training and online sales and marketing;

Communicate and conduct business more rapidly and cost-effectively with customers, suppliers and employees worldwide; and

Improve service and lower the cost of software ownership by the adoption of new Internet-enabled software delivery models.

These benefits have driven increased use of information technology infrastructure and applications, which in turn has created a strong demand for specialized information technology support and applications expertise. An increasing number of businesses are choosing to outsource the hosting and management of these applications.

The trend towards outsourced hosting and management of information technology infrastructure and applications by mid-market companies and organizations is driven by a number of factors, including:

Developments by major hardware and software vendors that facilitate outsourcing;

Advances in virtualization and high density computing that is beyond the skill and cost ability of the typical mid-market enterprise;

Table of Contents

The need to improve the reliability, availability and overall performance of applications as they increase in importance and complexity;
The need to focus on core business operations;
Challenges and costs of hiring, training and retaining application engineers and information technology employees with the requisite range of information technology expertise; and
The increasing complexity of managing the operations of Internet-enabled applications.

Notwithstanding increasing demand for these services, we believe the number of providers has decreased over the past three years, primarily as a result of industry consolidation. We believe this consolidation trend will continue and will benefit a small number of service providers that have the resources and infrastructure to cost effectively provide the scalability, performance, reliability and business continuity that customers expect.

Our Strategy

Our goal is to become the leading provider of outsourced managed applications and hosted services for mid-market companies and organizations. Further, our financial business objective is to market and deliver high value application services to generate the highest revenue per square foot of available capacity in our data centers. Key elements of our strategy are to:

Provide Excellent Customer Service. We are committed to providing all of our customers with a high level of customer support. We believe that through the acquisition of several businesses we have had the benefit of consolidating best of breed account management and customer support practices that ensure that we are achieving this goal.

Innovate and Leverage our Technology Platform. We will continue to expand our platform leverage by continued use of virtualization and utility type services. We believe the typical mid-market organization is not able to take advantage of these technology developments because of their complexity and cost. By continually updating our platform, we will continue to drive our competitiveness with higher value services at competitive prices.

Expand Our Global Delivery Capabilities. We believe that global delivery is an integral piece of our long-term strategy in that it directly maps to our overall goal of service and operational excellence for our customers. By leveraging a global delivery solution, we believe that we will be able to continue to deliver superior services and technical expertise at a competitive cost and enhance the value proposition for our customers.

Improve Operating Margins Through Efficiencies. We have made significant improvements to our overall cost structure. We intend to continue to improve operating margins as we grow revenue and improve the efficiency of our operations. As we grow, we will take advantage of our infrastructure capacity, our NaviView™ platform and our automated processes. Due to the fixed cost nature of our infrastructure, we believe that increased customer revenue will result in incremental improvements in our operating margins.

Grow Through Disciplined Acquisitions. We intend to derive a portion of our future growth through acquisitions of technologies, products and companies that improve our services and strengthen our position in our target markets. By utilizing our experience in acquiring and effectively integrating complementary companies, we can eliminate duplicative operations, reduce costs and improve our operating margins. We intend to acquire companies that provide valuable technical capabilities and entry into target markets, and allow us to take advantage of our existing technical and physical infrastructure.

Continue to Broaden Our Service Offerings. We continue to broaden our service offerings to compete more effectively in the mid-market by offering a range of packaged solutions. With our professional services and deep operational expertise, we effectively deliver to our customers a full range of services for Oracle, PeopleSoft, J.D. Edwards, Siebel, Lawson, Kronos and Microsoft Dynamics solutions. We believe

Table of Contents

that these services will help our customers achieve peak effectiveness with their systems and, as a full service provider for a broad range of applications, we are able to create leverage and cross and up sell opportunities in a manner that is unparalleled in the marketplace.

Corporate Information

Our principal executive offices are located at 400 Minuteman Road, Andover, Massachusetts 01810 and our telephone number is (978) 682-8300. Our website can be found at www.navisite.com. The information available on, or that can be accessed through, our website is not a part of this prospectus. Our Common Stock trades on the Nasdaq Capital Market under the trading symbol NAVI .

The Offering

Preferred Stock offered by the selling stockholders	Up to 3,125,000 shares of Series A Convertible Preferred Stock and the additional shares of Series A Convertible Preferred Stock as may be issuable with respect to the shares of Series A Convertible Preferred Stock being registered hereunder as a result of stock dividends.
Common Stock offered by the selling stockholders	Up to 3,625,000 shares of Common Stock (which represents the underlying shares of Common Stock issuable upon conversion of the Series A Convertible Preferred Stock) and the additional shares of Common Stock as may be issuable with respect to the shares being registered hereunder as a result of stock splits, stock dividends, recapitalization or similar transactions affecting the shares to be offered by the selling stockholders.
	415,203 shares of Common Stock issuable upon exercise of two warrants issued by the Company to the selling stockholders. Each warrant was issued in the transaction described below under The Transactions.
Use of Proceeds	We will not receive any proceeds from the sale of shares in this offering. Upon any exercise of either warrant by payment of cash, however, we will receive the exercise price of such warrant, which is \$0.01 per share for an aggregate of 415,203 shares of Common Stock. To the extent we receive cash upon any exercise of either warrant, we expect to use that cash for general corporate and working capital purposes.

Nasdaq Capital Market symbol for the Common Stock NAVI

All of the shares being offered by this prospectus are being offered by the selling stockholders listed herein under Selling Stockholders below. The selling stockholders identified in this prospectus, or their pledgees, donees, transferees or other successors-in-interest, may offer the shares or interests therein from time to time through public or private transactions at fixed prices that may be changed, at market prices prevailing at the time of sale, at prices related to prevailing market prices or at prices otherwise negotiated, as described in greater detail under Plan of Distribution below.

The Transactions

Amendment to Credit and Guaranty Agreement

On February 13, 2007 (the Closing Date), the Company entered into Amendment No. 4 and Waiver to Credit and Guaranty Agreement (the Amendment) with Silver Point Finance, LLC (Silver Point) and certain affiliated entities (collectively, with Silver Point, the Silver Point Lenders). The Company and the Lenders were parties to that certain Credit and Guaranty Agreement (the Silver Point Credit Agreement), dated as of April 11, 2006, whereby the Silver Point Lenders provided to the Company a \$70 million senior

Table of Contents

secured term loan facility and a \$3 million senior secured revolving credit facility. Under the Amendment, the Lenders provided to the Company an additional term loan in the original principal amount of \$3,762,753 (the Supplemental Term Loan). Pursuant to the Silver Point Credit Agreement, the Lenders had the right to require the Company to borrow amounts on substantially the same terms as the existing term loan under the Silver Point Credit Agreement. On June 8, 2007, the Company used amounts borrowed to repay approximately \$79,000,000 to Silver Point, which included all outstanding principal and accrued but unpaid interest under a term note and a revolving note, dated as of April 11, 2006 (the Silver Point Notes) pursuant to the Silver Point Credit Agreement and all prepayment fees. In connection with the repayment to Silver Point, the Silver Point Notes and the Silver Point Credit Agreement were paid in full and terminated.

Warrants to Purchase Company Stock

On the Closing Date, in connection with the Amendment and pursuant to the Silver Point Credit Agreement, the Company issued two warrants to purchase an aggregate of 415,203 shares of Common Stock (representing 1% of the fully diluted common equity of the Company) (subject to adjustment) of the Company pursuant to a Warrant Purchase Agreement by and between the Company, SPCP Group, LLC and SPCP Group III LLC, each a Delaware limited liability company and an affiliated entity of Silver Point. SPCP Group, LLC was issued a warrant to purchase 311,402 shares of Common Stock of the Company at an exercise price of \$.01 per share (Warrant No. B-1), and SPCP Group III LLC was issued a warrant to purchase 103,801 shares of Common Stock of the Company at an exercise price of \$.01 per share (Warrant No. B-2), and together with Warrant No. B-1, the Warrants). The Warrants are subject to potential weighted-average anti-dilution adjustments that could result in additional shares being issuable upon exercise of the Warrants. In no event shall the Warrants be exercisable for a number of shares that will cause the warrant holders, together with their affiliates and any other group member (within the meaning of Section 13(d) of the Securities Exchange Act of 1934), to beneficially own in excess of 9.99% of the number of shares of Common Stock of the Company outstanding immediately after giving effect to such exercise. The Warrants expire on February 13, 2017.

Acquisition of netASPx, Inc.

On September 12, 2007, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) dated September 12, 2007 by and among the Company, NSite Acquisition Corp., a wholly-owned subsidiary of the Company, netASPx, Inc. (netASPx) and GTCR Fund VI, L.P. (as stockholder representative).

Pursuant to the Merger Agreement, the Company acquired all of the issued and outstanding shares of netASPx 's capital stock. The stockholders of netASPx and the holders of stock options to acquire common stock that were in the money at the time of the closing of the merger received an aggregate of (i) 3,125,000 shares of the Preferred Stock, valued at \$25 million (assuming a value of \$8.00 per share) (the Stock Consideration) and (ii) \$15 million of cash (the Cash Consideration), subject to adjustment, including based on netASPx 's closing cash balance. All stock options of netASPx terminated at closing. All holders of stock options whose exercise price was less than the merger consideration per share at closing received consideration solely from the Cash Consideration.

In connection with the Merger Agreement, the Company and GTCR Fund VI, L.P. (as stockholder representative) entered into an escrow agreement with an escrow agent pursuant to which the Company placed \$3,150,000 of the Stock Consideration (393,750 shares of the Preferred Stock), assuming a value of \$8.00 per share, in an escrow account for nine months to secure indemnification obligations to the Company and NSite Acquisition Corp.

Pursuant to the Merger Agreement, NSite Acquisition Corp. merged with and into netASPx on September 12, 2007 and netASPx continued as the surviving corporation and as a wholly-owned subsidiary of the Company (the Surviving Corporation). On October 3, 2007, pursuant to the terms of the Merger Agreement, the Company merged the Surviving Corporation with and into netASPx, LLC, a limited liability company wholly-owned by the Company, with the limited liability company continuing as the surviving entity.

Table of Contents*Series A Convertible Preferred Stock*

Pursuant to the Merger Agreement, on September 12, 2007, the Company filed the Certificate of Designation with the Secretary of State of the State of Delaware. The holders of shares of Preferred Stock shall be entitled to receive annual dividends as follows: (i) 8% until September 15, 2008; (ii) 10% from September 16, 2008 until March 15, 2009; and (iii) 12% thereafter. Such dividends will be paid in kind in the form of shares of Preferred Stock. After March 15, 2009 (or earlier in certain circumstances), each share of Preferred Stock will be convertible, at the option of the holder, into Common Stock of the Company at a conversion price of \$8 per share, subject to customary adjustments for stock splits, reverse stock splits, stock dividends, recapitalizations and such other adjustments. In no event shall the number of shares of Common Stock of the Company issuable upon conversion of the Preferred Stock plus any other shares of Common Stock of the Company issuable in connection with the Preferred Stock be greater than 6,692,856 shares of the Company's outstanding Common Stock without the approval of our stockholders in accordance with the applicable rules and regulations of The Nasdaq Stock Market. Any shares of Preferred Stock not converted into Common Stock as a result of this limitation are required to be redeemed by us for an amount in cash equal to the then-applicable redemption price per share. At any time, the Company has the option to redeem the outstanding shares of Preferred Stock for an amount in cash equal to the then-applicable redemption price per share. In the event the Company consummates an equity or subordinated debt financing, the Company is required to use 50% of the net proceeds from such financing to redeem the outstanding shares of Preferred Stock at the then-applicable redemption price within 20 days. At any time after August 1, 2013, within 20 days after receipt of a written request from the holders of not less than a majority of our then outstanding Preferred Stock, we are required to redeem all of our then outstanding shares of Preferred Stock.

Registration Rights Agreement

In connection with the issuance of the shares of our Preferred Stock to the stockholders of netASPx, the Company and GTCR Fund VI, L.P. (as stockholder representative) entered into a Registration Rights Agreement under which we agreed, at our sole expense, by November 30, 2007, to register for resale under the Securities Act of 1933, as amended, the shares of our Preferred Stock issued to the stockholders of netASPx pursuant to the Merger Agreement and the shares of our Common Stock issued or issuable upon conversion of the shares of Preferred Stock issued to the stockholders of netASPx pursuant to the Merger Agreement.

We are registering the shares of Preferred Stock and the shares of Common Stock covered by this prospectus in order to fulfill our contractual obligations to the selling stockholders contained in the Registration Rights Agreement and in the Warrant Purchase Agreement. Registration of the shares covered by this prospectus does not necessarily mean that all or any portion of such shares will be offered for sale by the selling stockholders.

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 or Preferred 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. We have never been profitable and may never become profitable. As of July 31, 2007, we had incurred losses since our incorporation resulting in an accumulated deficit of approximately \$495.8 million. During the fiscal year ended July 31, 2007, we had a net loss of approximately \$25.9 million. We may continue to incur losses in the future. As a result, we can give no assurance that we will achieve profitability or be capable of sustaining profitable operations.

Table of Contents

Our financing agreement with a syndicated group of lenders includes various covenants and restrictions that may negatively affect our liquidity and our ability to operate and manage our business. As of November 21, 2007, we owed approximately \$115.0 million under a Credit Agreement with a syndicated group of lenders. The Credit Agreement:

restricts our ability to create, incur, assume, or permit to exist any additional indebtedness, excluding certain limited exemptions;

restricts our ability to create, incur, assume or permit to exist any lien on any of our assets, excluding certain limited exemptions;

restricts our ability to make investments, with certain limited exemptions;

requires that we meet financial covenants for leverage, fixed charges and capital expenditures;

restricts our ability to enter into any transaction of merger or consolidation, excluding certain limited exemptions;

restricts our ability to sell assets or purchase or otherwise acquire the property of any person, excluding certain limited exemptions;

restricts our ability to authorize, declare or pay dividends, excluding certain limited exemptions;

restricts our ability to enter into any transaction with any affiliate except on terms and conditions that are at least as favorable to us as those that could reasonably be obtained in a comparable arm's-length transaction with a person who is not an affiliate; and

restricts our ability to amend our organizational documents.

If we breach the Credit Agreement, a default could result. A default, if not waived, could result in, among other things, our not being able to borrow additional amounts under the Credit Agreement. In addition, 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. The maturity date of the Term Loan is June 8, 2013 and the revolving credit facility terminates on June 8, 2012. Interest on the Term Loan is payable in arrears on the first business day of August, November, February and May for ABR Loans, and the last day of the chosen interest period (which period can be one, two, three, six, nine or twelve months) or every three months, if the chosen interest period is greater than three months, for LIBOR Loans.

The Term Loan will amortize on the first day of each fiscal quarter (commencing on August 1, 2007) in equal quarterly installments over such period in the aggregate amounts as set forth below:

Year	Percentage of Term Loan
1	1.0%
2	1.0%
3	1.0%
4	1.0%
5	1.0%
6	95.0%

In addition, the Credit Agreement exposes us to interest rate fluctuations which could significantly increase the interest we pay the lenders. We are required, under the Credit Agreement, to maintain interest rate protection that shall result in at least 50% of the aggregate principal amount of the consolidated indebtedness of the Company and its subsidiaries other than the revolving loans under the Credit Agreement being subject to a fixed or maximum interest rate.

Table of Contents

We may need to obtain additional debt or equity financing in order to satisfy any mandatory redemption requirement of our Preferred Stock. Our Series A Convertible Preferred Stock has redemption rights which could require us to redeem any or all of the issued and outstanding Preferred Stock. We may need to obtain additional debt or equity financing in order to satisfy any mandatory redemption requirement, which financing may not be available on favorable terms or at all. In addition, our financing agreement with a syndicated group of lenders restricts our ability to incur additional indebtedness, which could negatively affect our ability to fulfill our obligations to the holders of the Preferred Stock.

Atlantic Investors, LLC, Unicorn Worldwide Holdings Limited and Madison Technology LLC may have interests that conflict with the interests of our other stockholders and have significant influence over corporate decisions. Unicorn Worldwide Holdings Limited and Madison Technology LLC, Atlantic Investors, LLC's two managing members, together with Atlantic Investors, LLC, owned approximately 47% of our outstanding capital stock as of July 31, 2007. As of July 31, 2007, Atlantic Investors, LLC's ownership alone was approximately 43% on a fully diluted basis. Atlantic Investors, LLC, Unicorn Worldwide Holdings Limited and Madison Technology LLC, together have significant power in the election of our Board of Directors. Regardless of how our other stockholders may vote, Atlantic Investors, LLC, Unicorn Worldwide Holdings and Madison Technology acting together may have the ability to determine whether to engage in a merger, consolidation or sale of our assets and any other significant corporate transaction.

Members of our management group also have significant interests in Atlantic Investors, LLC, which may create conflicts of interest. Some of the members of our management and Board of Directors also serve as members of the management group of Atlantic Investors, LLC 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, LLC. Arthur P. Becker, our President and Chief Executive Officer and a member of our Board of Directors, is the managing member of Madison Technology LLC, a managing member of Atlantic Investors, LLC. 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, LLC, 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. (accounted for as an "as if pooling"), Avasta, Inc., Conxion Corporation, selected assets of Interliant, Inc., all of the shares of ten wholly-owned subsidiaries of ClearBlue Technologies, Inc. (accounted for as an "as if pooling"), substantially all of the assets and liabilities of Surebridge, Inc., substantially all of the assets of Alabanza, LLC and Hosting Ventures, LLC and all of the issued and outstanding stock of Jupiter Hosting, Inc. and netASPx, Inc. 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;

exposure to unforeseen liabilities of acquired companies;

10

Table of Contents

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.

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. In addition, our limited operating history with our current structure resulting from recent acquisitions makes it very difficult for 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 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 the 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 websites and infrastructure systems and applications. We utilize our direct private transit Internet connections to major network providers, such as Level 3 Communications Inc. and Global Crossing, as a means of avoiding

Table of Contents

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.

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 managed IT 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 International Business Machines Corp., Microsoft Corp., Oracle Corp and Lawson Associates, Inc. Our relationships with Microsoft and Oracle are critical to the operations and success of our business. The loss of our ability to continue to obtain, utilize or depend on any of these applications or relationships could substantially weaken our ability to provide services to our customers. It may also 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, Inc., F5 Networks, Inc., Microsoft, Oracle and Lawson. We cannot assure you 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 inability to timely obtain and continue to maintain the necessary hardware or parts could result in sustained equipment

Table of Contents

failure 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 use 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 these interruptions or breaches. 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 liability for claims of defamation, negligence, copyright, patent or trademark infringement and other claims based on the nature of the materials disseminated through our network. For example, lawsuits may be brought against us claiming that content distributed by some of our 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 these 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 the 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.

Concerns relating to privacy and protection of customer and job seeker data on our America's Job Exchange website could damage our reputation and deter current and potential customers and job seekers from using our products and services. We recently launched America's Job Exchange, a successor to America's Job Bank. Concerns about our practices for America's Job Exchange with regard to the collection, use, disclosure or security of personal information or other privacy-related matters, even if unfounded, could damage our reputation, which in turn could significantly harm our business, financial condition and operating results. While we strive to comply with all applicable data protection laws and regulations, as well as our own posted privacy policies, any failure or perceived failure to comply may result in proceedings or actions against us by government entities or others, which could potentially have an adverse effect on our business. Moreover, failure or perceived failure to comply with our policies or applicable requirements related to the collection, use, sharing or security of personal information or other

Table of Contents

privacy-related matters could result in a loss of customer and job seeker confidence in us, which could adversely affect our business. Laws related to data protection continue to evolve. It is possible that certain jurisdictions may enact laws or regulations that impact our ability to offer our products and services and/or result in reduced traffic or contract terminations in those jurisdictions, which could harm our business.

Unauthorized access, phishing schemes and other disruptions could jeopardize the security of customer and job seeker information stored in our systems, and may result in significant liability to us and may cause existing customers and job seekers to refrain from doing business with us.

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. The departure of our executive officers could adversely affect 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 three years, we have had reductions-in-force and departures of several members of senior management due to redundancies and restructurings resulting from the consolidation of our acquired companies. In the event of future reductions or departures of employees, 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.

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. If we are ultimately unsuccessful in any of these matters, we could be required to pay substantial amounts of cash to the other parties. The amount and timing of any of these payments could adversely affect our financial condition.

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 led 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 managed IT 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 necessary to capture increased market share or maintain our market share. We compete in the managed IT services market. This market is rapidly evolving, highly competitive and likely to be characterized by over-capacity and industry

Table of Contents

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 managed IT 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: