

NAVISITE INC  
Form DEF 14C  
March 14, 2006

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**SCHEDULE 14C INFORMATION**

**Information Statement Pursuant to Section 14(c) of the Securities  
Exchange Act of 1934**

Check the appropriate box:

- Preliminary Information Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))
- Definitive Information Statement

**NaviSite, Inc.**

(Name of Registrant as Specified In Charter)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rule 14c-5(g) 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 by written 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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**NAVISITE, INC.  
400 Minuteman Road  
Andover, Massachusetts 01810**

**NOTICE OF ACTION TAKEN PURSUANT TO  
WRITTEN CONSENT OF STOCKHOLDERS**

To the stockholders of NaviSite, Inc.:

This Notice and the accompanying Information Statement are being furnished to the stockholders of NaviSite, Inc., a Delaware corporation (the "Company"), in connection with action taken by the holders of at least a majority of the issued and outstanding voting securities of the Company, approving, by written consent dated February 23, 2006, the amendment of the Company's Amended and Restated 2003 Stock Incentive Plan to increase the maximum number of shares of the Company's Common Stock available for issuance thereunder from 6,800,000 to 11,800,000 shares.

**We Are Not Asking You for a Proxy and You are Requested Not To Send Us a Proxy.**

Your vote or consent is not requested or required to approve these matters. The accompanying Information Statement is provided solely for your information. The accompanying Information Statement also serves as the notice required by Section 228 of the Delaware General Corporation Law of the taking of a corporate action without a meeting by less than unanimous written consent of the stockholders of the Company.

By order of the Board of Directors,

Monique Cormier  
*Secretary*

Andover, Massachusetts  
March 14, 2006

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

**INFORMATION STATEMENT**

**We Are Not Asking You for a Proxy and You are Requested Not To Send Us a Proxy.**

**General**

This Information Statement is being furnished by NaviSite, Inc., a Delaware corporation ( NaviSite or the Company ), in connection with action taken by the holders of at least a majority of the issued and outstanding voting securities of the Company, approving, by written consent dated February 23, 2006, the amendment of the Company s Amended and Restated 2003 Stock Incentive Plan to increase the maximum number of shares of the Company s Common Stock available for issuance thereunder from 6,800,000 to 11,800,000 shares.

This Information Statement is being provided pursuant to the requirements of Rule 14c-2 of the Securities Exchange Act of 1934, as amended (the Exchange Act ), to inform holders of Common Stock entitled to vote or give an authorization or consent in regard to the matters acted upon by written consent. This Information Statement is being mailed on or about March 17, 2006 to the Company s stockholders of record as of February 23, 2006 (the Record Date ). The Company anticipates that the actions will take effect on April 6, 2006.

**Reason for the Written Consent**

*The Stock Plan Amendment*

On January 27, 2006, the Board of Directors of the Company approved, subject to stockholder approval, an amendment (the Stock Plan Amendment ) to the Company s Amended and Restated 2003 Stock Incentive Plan, as amended, to increase the maximum number of shares of Common Stock pursuant to which the Company may grant stock options and restricted stock awards thereunder from 6,800,000 to 11,800,000 shares.

*The Written Consent*

On February 23, 2006, Atlantic Investors, LLC, the majority stockholder of the Company ( Atlantic Investors ), delivered to the Company an executed written consent of stockholders, in the form attached as Appendix I, approving the Stock Plan Amendment (the Written Consent ).

**Voting and Vote Required**

The Company is not seeking consent, authorizations or proxies from you. Section 228 of the Delaware General Corporation Law ( Section 228 ) provides that the written consent of the holders of outstanding shares of voting capital stock, having not less than the minimum number of votes which would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted, may be substituted for a meeting.

Approval of at least a majority of the outstanding shares of Common Stock present and voting on the matter at a meeting would be required to approve the Stock Plan Amendment.

As of the Record Date, the Company had 28,487,260 shares of Common Stock outstanding and entitled to vote. Each share of Common Stock is entitled to one vote. On the Record Date, Atlantic Investors held

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17,121,652 shares, or approximately 60%, of the Company's Common Stock. Accordingly, the matters approved by Atlantic Investors by written consent on the Record Date have been approved under Section 228 and require no further stockholder action.

### **Notice Pursuant to Section 228**

Pursuant to Section 228, the Company is also required to provide prompt notice of the taking of a corporate action by written consent to the stockholders who have not consented in writing to such action. This Information Statement also serves as the notice required by Section 228.

### **Dissenters' Rights of Appraisal**

The Delaware General Corporation Law does not provide dissenters' rights of appraisal to the Company's stockholders in connection with the matters approved by the Written Consent.

### **Householding of Stockholder Materials**

Some banks, brokers and other nominee record holders may be participating in the practice of householding stockholder materials, such as proxy statements, information statements and annual reports. This means that only one copy of this Information Statement may have been sent to multiple stockholders in your household. The Company will promptly deliver a separate copy of this Information Statement 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) 946-8729. If you want to receive separate copies of stockholder materials 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.

## **APPROVAL OF THE STOCK PLAN AMENDMENT**

On January 27, 2006, the Board of Directors of the Company approved, subject to stockholder approval, an amendment to the Company's Amended and Restated 2003 Stock Incentive Plan (as amended, the "2003 Plan"), to increase the maximum number of shares of Common Stock pursuant to which the Company may grant stock options and restricted stock awards thereunder from 6,800,000 to 11,800,000 shares. The Board adopted the Stock Plan Amendment because the number of shares currently available under the 2003 Plan is insufficient to satisfy the expected foreseeable future share requirements thereunder. The Board of Directors believes that continued grants of stock options, as well as grants of restricted stock awards, will be an important element in attracting and retaining key employees who are expected to contribute to the Company's growth and success. NaviSite's management relies on stock options as essential parts of the compensation packages necessary for NaviSite to attract and retain experienced officers and employees. As of February 23, 2006 and following approval by the stockholders of the Stock Plan Amendment, 5,156,779 shares were available for issuance under the 2003 Plan. The closing price of NaviSite Common Stock on the Nasdaq Capital Market on February 23, 2006 was \$1.45.

### **Summary of the 2003 Plan**

The 2003 Plan was adopted, subject to stockholder approval, by NaviSite's Board of Directors on July 10, 2003 and amended and restated on November 11, 2003. The stockholders of the Company approved the 2003 Plan on December 9, 2003 at the Annual Meeting of Stockholders. On May 6, 2004, the Board of Directors amended the 2003 Plan to increase the number of shares of Common Stock available for issuance under such plan from 3,800,000 to 6,800,000, and such increase was approved by the stockholders of the Company on February 20, 2005. On January 27,



2006, the Board of Directors approved the Stock Plan Amendment. The Stock Plan Amendment was approved by Atlantic Investors on February 23, 2006. The 2003 Plan provides for the grant of options to employees that are intended to qualify as incentive stock options within the meaning of Section 422 of the Code, as well as options not intended to qualify as incentive stock options and restricted stock awards (each, an Award ) to employees, officers, directors, consultants and advisors of the Company

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and the Company's present or future parent or subsidiary corporations. A maximum of 11,800,000 shares of Common Stock are eligible for issuance under the 2003 Plan upon the exercise of options or in connection with Awards. If any Award expires, or is terminated, surrendered or canceled without having been fully exercised or forfeited, in whole or in part (including as a result of shares of Common Stock being repurchased by NaviSite at the original issue price pursuant to a contractual repurchase right), or results in the Common Stock not being issued, the unissued Common Stock covered by such Award shall again be available for the grant of Awards under the 2003 Plan.

As of February 23, 2006, approximately 539 persons were eligible to receive Awards under the 2003 Plan, including the Company's three executive officers and five non-executive directors. The granting of Awards under the 2003 Plan is discretionary, and the Company cannot now determine the number or type of Awards to be granted in the future to any particular person or group of persons. The following table summarizes options awarded under the 2003 Plan (excluding the Stock Plan Amendment) and under the Stock Plan Amendment as of February 23, 2006 to (a) each Named Executive Officer (as defined below under the heading "Executive Compensation"), (b) the current executive officers, as a group, (c) the current non-executive officer directors, as a group and (d) the current non-executive officer employees, as a group, since the adoption of the 2003 Plan in July 2003:

<b>Name and Principal Position</b>	<b>Number of Options Granted Under the 2003 Plan</b>	<b>Number of Options Granted Under the Stock Plan Amendment</b>
Arthur P. Becker Chief Executive Officer and President	1,063,125	
John J. Gavin, Jr. Chief Financial Officer	550,000	
Stephen Pace Former Senior Vice President, Sales and Marketing		
Kenneth Drake Former General Counsel and Secretary		
Current Executive Officers, as a group	1,705,625	
Current Non-Executive Officer Directors, as a group	805,000	
Current Non-Executive Officer Employees, as a group	4,129,894	66,221

The purpose of the 2003 Plan is to provide Awards to employees, officers, directors, consultants and advisors of NaviSite and its present or future parent or subsidiary corporations (each a "Participant"), all of whom are eligible to receive Awards under the 2003 Plan. A copy of the 2003 Plan is attached to this Information Statement as Appendix II. The following is a summary of the 2003 Plan and should be read together with the 2003 Plan. The summary is qualified in its entirety by reference to the 2003 Plan.

*Administration.* The 2003 Plan is administered by the Board of Directors. The Board of Directors has the power to grant Awards and to adopt, amend and repeal such administrative rules, guidelines and practices relating to the 2003 Plan as it may deem advisable. The Board of Directors may correct any defect, supply any omission or reconcile any inconsistency in the 2003 Plan or any Award in the manner and to the extent it shall deem expedient to carry the 2003 Plan into effect and it shall be the sole and final judge of such expediency. All decisions by the Board shall be made in

the Board's sole discretion and shall be final and binding on all persons having or claiming any interest in the Plan or in any Award. The Board may delegate its powers to one or more committees of the Board or to one or more executive officers of NaviSite (provided, that the Board of Directors shall fix the terms of the Awards granted by the executive officer and the maximum number of shares that the executive officer may grant and that no executive officer shall have the power to grant Awards to another executive officer (as defined in Rule 3b-7 of the Exchange Act, or to any officer (as defined in Rule 16a-1 of the Exchange Act) of NaviSite).

*Per-Participant Limit.* No Participant may be granted Awards during any one calendar year to purchase more than 650,000 shares of Common Stock.

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*Exercise Price.* The Board establishes the exercise price at the time each option is granted.

*Exercise of Options.* Each option granted under the 2003 Plan shall either be fully exercisable at the time of grant or shall become exercisable in such installments as the Board may specify. Once an installment becomes exercisable it shall remain exercisable until expiration or termination of the option, unless otherwise specified by the Board. Each option or installment may be exercised at any time or from time to time, in whole or in part, for up to the total number of shares with respect to which it is then exercisable. During the Participant's lifetime, Awards may be exercised only by the Participant.

*Payment for Exercise of Options.* Payment for the exercise of options under the 2003 Plan may be made by one or any combination of the following forms of payment (a) by cash or check payable to the order of NaviSite; (b) except as otherwise explicitly provided in the applicable option agreement, by delivery of an irrevocable and unconditional undertaking by a creditworthy broker to deliver promptly to NaviSite sufficient funds to pay the exercise price or any required tax withholding, or delivery by the Participant to NaviSite of a copy of irrevocable and unconditional instructions to a creditworthy broker to deliver promptly to NaviSite cash or a check sufficient to pay the exercise price and any required tax withholding; (c) when the Common Stock is registered under the Exchange Act, by delivery of shares of Common Stock owned by the Participant valued at fair market value (as determined by or in a manner approved by the Board) provided that such method of payment is then permitted by law and such Common Stock, if acquired directly from NaviSite, was owned by the Participant for at least six months; or (d) to the extent permitted by the Board, (x) by delivery of a promissory note of the Participant to NaviSite (on terms determined by the Board) or (y) payment of such other lawful consideration as the Board may determine.

*Transferability.* Except as otherwise provided in the applicable option agreement, options are not transferable except by will or by the laws of descent and distribution.

*Restricted Stock.* The Board may grant Awards entitling recipients to acquire shares of Common Stock, subject to the right of NaviSite to repurchase all or part of such shares at their issue price or other stated or formula price from the Participant in the event that conditions specified by the Board in the applicable Award are not satisfied prior to the end of the applicable restriction period or periods established by the Board for such Award.

*Acquisition of NaviSite.* Upon the occurrence of a Reorganization Event (as defined below) or the execution by NaviSite of any agreement with respect to any Reorganization event, the Board shall provide that all outstanding options outstanding under the 2003 Plan shall be assumed, or equivalent options shall be substituted, by the acquiring or succeeding corporation (or an affiliate thereof). If the acquiring or succeeding corporation (or an affiliate thereof) does not agree to assume, or substitute for, such options, then all then unexercised options will become exercisable in full as of a time specified by the Board prior to the Reorganization Event and will terminate immediately prior to the consummation of such Reorganization Event; provided, however, that in the event of a Reorganization Event under the terms of which holders of Common Stock will receive a cash payment for each share of Common Stock surrendered pursuant to such Reorganization Event (the Acquisition Price), then the Board may instead provide that all outstanding options outstanding under the 2003 Plan shall terminate upon consummation of such Reorganization Event and that each optionholder shall receive, in exchange therefor, a cash payment equal to the amount (if any) by which (A) the Acquisition Price multiplied by the number of shares of Common Stock subject to such outstanding options (whether or not then exercisable), exceeds (B) the aggregate exercise price of such options.

Upon the occurrence of a Reorganization Event, the repurchase and other rights of NaviSite under each outstanding restricted stock award shall inure to the benefit of NaviSite's successor and shall apply to the cash, securities or other property which the Common Stock was converted into or exchanged for pursuant to such Reorganization Event in the same manner and to the same extent as they applied to the Common Stock subject to such restricted stock award.

Reorganization Event is defined in the 2003 Plan as follows: (a) any merger or consolidation of NaviSite with or into

another entity as a result of which all of the Common Stock of NaviSite is converted into or exchanged for the right to receive cash, securities or other property or (b) any

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exchange of all of the Common Stock of NaviSite for cash, securities or other property pursuant to a share exchange transaction.

*Effect of Termination, Disability or Death.* The Board determines the effect on an Award of the disability, death, retirement, authorized leave of absence or other change in the employment or other status of a Participant and the extent to which, and the period during which, the Participant, or the Participant's legal representative, conservator, guardian or designated beneficiary, may exercise rights under the Award.

*Amendment of Award.* The Board of Directors may amend, modify or terminate any outstanding Award, including but not limited to, by substituting therefor another Award of the same or a different type, changing the date of exercise or realization, and converting an ISO (as defined below) to a non-qualified stock option, provided that the Participant's consent to such action shall be required unless the Board of Directors determines that the action, taking into account any related action, would not materially and adversely affect the Participant.

*Termination and Amendment of Plan.* The Board may amend, suspend or terminate the 2003 Plan or any portion thereof at any time. Unless terminated sooner, no Awards may be granted under the 2003 Plan after July 9, 2013, but Awards previously granted may extend beyond that date.

## **United States Federal Income Tax Consequences**

THE FOLLOWING DISCUSSION OF UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE ISSUANCE AND EXERCISE OF OPTIONS GRANTED UNDER THE 2003 PLAN IS BASED UPON THE PROVISIONS OF THE INTERNAL REVENUE CODE AS IN EFFECT ON THE DATE OF THIS INFORMATION STATEMENT, CURRENT REGULATIONS, AND EXISTING ADMINISTRATIVE RULINGS OF THE INTERNAL REVENUE SERVICE. IN ADDITION, THIS DISCUSSION ASSUMES THAT ALL AWARDS ARE EXEMPT FROM, OR COMPLY WITH, THE RULES SECTION 409A OF THE INTERNAL REVENUE CODE REGARDING NONQUALIFIED DEFERRED COMPENSATION. THIS DISCUSSION IS NOT INTENDED TO BE A COMPLETE DISCUSSION OF ALL OF THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE 2003 PLAN OR OF THE REQUIREMENTS THAT MUST BE MET IN ORDER TO QUALIFY FOR THE DESCRIBED TAX TREATMENT.

*Incentive Stock Options ( ISOs ).* The following general rules are applicable under current United States federal income tax law to ISOs granted under the 2003 Plan:

1. In general, an optionee will not recognize any taxable income upon the grant of an ISO or upon the issuance of shares to him or her upon the exercise of an ISO, and NaviSite will not be entitled to a federal income tax deduction upon either the grant or the exercise of an ISO.
2. If shares acquired upon exercise of an ISO are not disposed of within (i) two years from the date the ISO was granted or (ii) one year from the date the shares are issued to the optionee pursuant to the exercise of the ISO (the *Holding Periods* ), the difference between the amount realized on any subsequent disposition of the shares and the exercise price generally will be treated as capital gain or loss to the optionee.
3. If shares acquired upon exercise of an ISO are disposed of and the optionee does not satisfy the *Holding Periods* (a *Disqualifying Disposition* ), then in most cases the lesser of (i) any excess of the fair market value of the shares at the time of exercise of the ISO over the exercise price or (ii) the actual gain on disposition, will be treated as compensation to the optionee and will be taxed as ordinary income in the year of such disposition.

4. The difference between the amount realized by an optionee as the result of a Disqualifying Disposition and the sum of (i) the exercise price and (ii) the amount of ordinary income recognized under the above rules generally will be treated as capital gain or loss to the optionee.

5. In any year that an optionee recognizes ordinary income on a Disqualifying Disposition of shares acquired upon exercise of an ISO, NaviSite generally will be entitled to a corresponding federal income tax deduction.

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6. An optionee may be entitled to exercise an ISO by delivering shares of NaviSite Common Stock to NaviSite in payment of the exercise price, if the optionee's ISO agreement so provides. If an optionee exercises an ISO in such fashion, special rules will apply.

7. In addition to the tax consequences described above, the exercise of an ISO may result in an alternative minimum tax to the optionee. In general, the amount by which the fair market value of the shares received upon exercise of the ISO exceeds the exercise price is included in the optionee's alternative minimum taxable income. A taxpayer is required to pay the greater of his regular tax liability or the alternative minimum tax. A taxpayer who pays alternative minimum tax attributable to the exercise of an ISO may be entitled to a tax credit against his or her regular tax liability in later years.

8. Capital gain or loss recognized by an optionee on a disposition of shares will be long-term capital gain or loss if the optionee's holding period for the shares exceeds one year.

9. Special rules apply if the shares acquired upon the exercise of an ISO are subject to vesting, or are subject to certain reporting requirements and restrictions on resale under federal securities laws applicable to directors, certain officers or 10% stockholders.

*Non-Qualified Options.* The following general rules are applicable under current United States federal income tax law to Non-Qualified Options granted under the 2003 Plan:

1. In general, an optionee will not recognize any taxable income upon the grant of a Non-Qualified Option, and NaviSite will not be entitled to a federal income tax deduction upon such grant.

2. An optionee generally will recognize ordinary income at the time of exercise of the Non-Qualified Option in an amount equal to the excess, if any, of the fair market value of the shares on the date of exercise over the exercise price. NaviSite may be required to withhold tax on this amount.

3. When an optionee sells the shares acquired upon the exercise of a Non-Qualified Option, he or she generally will recognize capital gain or loss in an amount equal to the difference between the amount realized upon the sale of the shares and his or her basis in the shares (generally, the exercise price plus the amount taxed to the optionee as ordinary income). If the optionee's holding period for the shares exceeds one year, such gain or loss will be a long-term capital gain or loss.

4. When an optionee recognizes ordinary income attributable to a Non-Qualified Option, NaviSite generally should be entitled to a corresponding federal income tax deduction.

5. An optionee may be entitled to exercise a Non-Qualified Option by delivering shares of NaviSite Common Stock to NaviSite in payment of the exercise price, if the optionee's option agreement so provides. If an optionee exercises a Non-Qualified Option in such fashion, special rules will apply.

6. Special rules apply if the shares acquired upon the exercise of a Non-Qualified Option are subject to vesting, or are subject to certain reporting requirements and restrictions on resale under federal securities laws applicable to directors, certain officers or 10% stockholders.

*Restricted Stock Awards.* The following general rules are applicable under current United States federal income tax law to Awards comprised of restricted Common Stock under the 2003 Plan:



Persons receiving restricted Common Stock under the under the 2003 Plan pursuant to Awards generally will not recognize taxable income upon the grant of the Award, unless the Participant makes an election under Section 83(b) of the Code (an 83(b) Election ). If the Participant makes an 83(b) Election within 30 days of the date of grant, the Participant will recognize ordinary income, for the year the Award is granted, in an amount equal to the difference between the fair market value of the shares received (determined on the date of the Award) over the purchase price. If an 83(b) Election is not made, then the Participant will recognize ordinary income, at the time that the forfeiture provisions or restrictions on transfer lapse, in an amount equal to the difference between the fair market value of the Common Stock at the time of such lapse and the original purchase price paid for the Common Stock. The Participant will have a tax basis in the Common Stock acquired equal to the sum of the price paid and the amount of ordinary income recognized.

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Upon the disposition of the Common Stock acquired pursuant to a restricted stock Award, the Participant will recognize capital gain or loss equal to the difference between the sale price of the Common Stock and the Participant's basis in the Common Stock. The capital gain or loss will be a long-term capital gain or loss if the shares are held for more than one year.

*CIRCULAR 230 DISCLAIMER*

Nothing contained in this discussion of certain federal income tax considerations is intended or written to be used, and cannot be used, for the purpose of (a) avoiding tax-related penalties under the Code or (b) promoting, marketing, or recommending to another party any transactions or tax-related matters addressed herein.

**Equity Compensation Plan Information as of July 31, 2005**

The following table sets forth certain information regarding NaviSite's equity compensation plans as of July 31, 2005. Pursuant to the rules of the Securities and Exchange Commission, the following table excludes the 5,000,000 shares subject to the Stock Plan Amendment.

<b>Plan Category</b>	<b>(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</b>	<b>(b) Weighted-average Exercise Price of Outstanding Options, Warrants and Rights</b>	<b>(c) Number of Securities Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))</b>
Equity compensation plans approved by security holders	6,086,655	\$ 3.26	736,820
Equity compensation plans not approved by security holders			
Total	6,086,655		736,820

On February 23, 2006, Atlantic Investors delivered to the Company an executed written consent of stockholders approving the Stock Plan Amendment. This Information Statement is being sent to all stockholders of the Company as notice that such action has been taken. The Company is not asking that you vote to approve the Stock Plan Amendment. Under federal law governing the taking of stockholder action by written consent, stockholder approval of the Stock Plan Amendment will be deemed effective 20 days after the mailing of this Information Statement to stockholders of the Company.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

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

each person known by the Company to beneficially own more than 5% of the outstanding shares of Common Stock;

each of the Company'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 and the information is not necessarily indicative of beneficial ownership for any other purpose. Except as otherwise noted in the footnotes to the table, the Company believes that each person or entity named in the table has sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them (or shares such power with his or her spouse). Under such rules, shares of Common Stock issuable under options that are currently exercisable or exercisable within 60 days after September 30, 2005 ( "Presently Exercisable Options" ) are deemed

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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 Common Stock of each person or entity named in the following table is based on 28,487,260 shares of 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
<b>5% Stockholders</b>		
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 Boston, MA 02108	11,472,846(3)	31.0%
<b>Directors and Named Executive Officers</b>		
Andrew Ruhan	50,000(4)	*
Arthur P. Becker	668,631(5)	2.3%
Gabriel Ruhan	358,333(6)	1.2%
James Denedy	80,138(6)	*
Thomas R. Evans	48,472(6)	*
Larry Schwartz	75,971(6)	*
John J. Gavin, Jr.	173,614(6)	*
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.

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- (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.

**ADDITIONAL INFORMATION ABOUT NAVISITE**

**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 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

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monthly over a period of 12 months. NaviSite also paid each of Messrs. Evans, Denedy 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.

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation Awards Securities Underlying
		Salary (\$)	Bonus (\$)	Options
Arthur P. Becker Chief Executive Officer and President	2005	275,000		500,000
	2004	275,000		460,000
	2003	121,635		40,000
John J. Gavin, Jr. Chief Financial Officer and Treasurer	2005	250,000		300,000
	2004	50,800		200,000
Kenneth Drake Former General Counsel and Secretary	2005	185,989		100,000
	2004	155,769		80,000
Stephen Pace Former Senior Vice President, Sales and Marketing	2005	331,227	30,000	90,000





**Table of Contents***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			Exercise Price (Per Share) (\$)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (\$)(1)	
	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year				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%		1.58	3/31/2015	89,398	226,534

- (1) Amounts reported in these columns represent hypothetical amounts that may be realized upon exercise of the options immediately prior to the expiration of their term assuming the specified rates of appreciation (5% and 10%) on the underlying common stock over the term of the options. These numbers are calculated based on rules promulgated by the SEC and do not reflect NaviSite's estimate of future stock price growth. Actual gains, if any, on stock option exercises and common stock holdings are dependent on the timing of such exercise and the future performance of the underlying common stock. There can be no assurance that the rates of appreciation assumed in this table can be achieved or that the amounts reflected will be received by the optionholder.
- (2) On April 1, 2005, this option was granted under NaviSite's Amended and Restated 2003 Stock Incentive Plan. The option vests as to 1/36th of the number of shares subject to the option on each monthly anniversary of the grant date until the option is fully vested on the third anniversary of the grant date.
- (3) On September 28, 2004, this option was granted under NaviSite's Amended and Restated 2003 Stock Incentive Plan. The option vested as to 25% of the original number of shares subject to the option on March 28, 2005 and thereafter vests monthly in equal amounts until fully vested on March 28, 2008.

**Table of Contents***Options Exercised During Fiscal Year Ended July 31, 2005*

The following table sets forth the number of exercisable and unexercisable options to purchase NaviSite common stock held by the Named Executive Officers as of July 31, 2005. No stock options to purchase NaviSite common stock were exercised by any Named Executive Officer during the fiscal year ended July 31, 2005.

**AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND  
FISCAL YEAR-END OPTION VALUES**

Name	Number of Securities Underlying Unexercised Options at July 31, 2005		Value of Unexercised In the Money Options at July 31, 2005(\$)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Arthur P. Becker	366,677	633,323	13,753	151,247
John J. Gavin, Jr.	125,004	374,996	6,877	75,623
Kenneth Drake	67,918		2,200	
Stephen Pace	40,417		1,650	

**Employment Agreements and Severance and Change of Control Arrangements***Arthur Becker*

We entered into an employment agreement with Arthur P. Becker as of February 21, 2003, pursuant to which he is employed as NaviSite's Chief Executive Officer and President. His agreement is for a continuous term, but subject to the provisions described below, may be terminated by either party at any time. Pursuant to this agreement, Mr. Becker is entitled to receive:

a base salary, currently \$275,000 per year, which is reviewed by our Board of Directors annually (but no more frequently than annually);

an annual bonus upon NaviSite's achievement of various financial and/or other goals established by the Board; and

fringe benefits, including stock options and health insurance and other benefits available to our employees.

If Mr. Becker's employment is terminated (i) by reason of death or disability, (ii) by NaviSite with cause or (iii) due to his voluntary resignation, then he will receive no additional salary or benefits other than what has accrued through the date of termination.

If Mr. Becker's employment is terminated without cause and he signs a general release of known and unknown claims in a form satisfactory to NaviSite, Mr. Becker will receive severance payments at his final base salary rate, less applicable withholding, until the earlier of (i) six months after the date of his termination without cause, or (ii) the date on which he first commences other employment.

Mr. Becker and NaviSite have also entered into an indemnification agreement pursuant to which he will be indemnified by NaviSite, subject to certain limitations, for any liabilities incurred by him in connection with his role as a director and officer of NaviSite.

*John J. Gavin, Jr.*

On May 6, 2004, Mr. Gavin and NaviSite entered into an employment agreement pursuant to which Mr. Gavin is employed as NaviSite's Chief Financial Officer. Mr. Gavin's agreement is for a continuous term, but subject to the provisions described below, may be terminated by either party at any time. Pursuant to this agreement, Mr. Gavin is entitled to receive:

a base salary, currently \$250,000 per year, which is reviewed by our Board of Directors annually (but no more frequently than annually); and

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fringe benefits, including stock options and health insurance and other benefits available to our employees.

If Mr. Gavin's employment is terminated (i) by reason of death or disability, (ii) by NaviSite with Cause (as defined) or (iii) due to his voluntary resignation without Good Reason (as defined), then he will receive no additional salary or benefits other than what has accrued through the date of termination.

If Mr. Gavin's employment is terminated by NaviSite without Cause or by Mr. Gavin with Good Reason, and he signs a general release of known and unknown claims in a form satisfactory to NaviSite, Mr. Gavin will receive severance payments at his final base salary rate, less applicable withholding, and continuation of medical benefits until the earlier of (i) six or twelve months after the date of his termination (depending on the reason, date of severance and amount of time served with NaviSite) or (ii) the date on which Mr. Gavin commences other employment.

If Mr. Gavin's employment is terminated by Mr. Gavin with Good Reason after a Change in Control (as defined in the employment agreement), and he signs a general release of known and unknown claims in a form satisfactory to NaviSite, Mr. Gavin will receive severance payments at his final base salary rate, less applicable withholding, and continuation of medical benefits until the earlier of (i) twelve months after the date of his termination or (ii) the date on which Mr. Gavin commences other employment.

*Kenneth Drake*

We entered into an employment agreement with Kenneth Drake as of July 15, 2003, pursuant to which he was employed as NaviSite's General Counsel. Pursuant to this agreement, Mr. Drake was entitled to receive:

an annual base salary of \$180,000 per year; and

fringe benefits, including stock options and health insurance and other benefits available to our employees.

Mr. Drake was also eligible for an annual discretionary bonus based in part upon NaviSite's achievement of various goals set by Mr. Drake and NaviSite's President and Chief Executive Officer.

Pursuant to the agreement, if Mr. Drake's employment was terminated (i) by reason of death or disability, (ii) by NaviSite with Cause (as defined) or (iii) due to his voluntary resignation without Good Reason (as defined), then he was not entitled to receive any additional salary or benefits other than what had accrued through the date of termination.

If Mr. Drake's employment was terminated by NaviSite without Cause or by Mr. Drake with Good Reason, and he signed a general release of known and unknown claims in a form satisfactory to NaviSite, Mr. Drake would have received severance payments at his final base salary rate, less applicable withholding, and continuation of medical benefits until six months after the date of his termination.

Mr. Drake voluntarily resigned as NaviSite's General Counsel, which resignation was effective on July 4, 2005. Because Mr. Drake voluntarily resigned, he received no payments from NaviSite pursuant to his employment agreement as a result of his resignation other than payments of base salary and vacation accrued through the effective date of his resignation.

*Stephen Pace*

In connection with NaviSite's acquisition of the Surebridge business, NaviSite and Mr. Pace entered into an employment offer letter, dated as of June 9, 2004, which provided for the employment of Mr. Pace as NaviSite's Senior Vice President, Sales and Marketing. Pursuant to this agreement, Mr. Pace was entitled to receive:

an annual base salary of \$255,000;

additional compensation under NaviSite's 2005 Senior Vice President, Sales and Marketing Compensation Plan; and

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fringe benefits, including stock options, health insurance, a car allowance and other benefits available to our employees.

Mr. Pace also received a bonus of \$30,000 that NaviSite had previously agreed to pay in connection with the Surebridge acquisition.

The employment offer letter also provided that in the event NaviSite terminated Mr. Pace's employment for reasons other than cause (as defined), NaviSite would continue to pay Mr. Pace his base salary for a period of 12 months, provided that if Mr. Pace commenced any employment during the 12-month period following the termination of his employment, the remaining amount of base salary to be paid by NaviSite would be reduced by the amount of compensation received by Mr. Pace from such other employment.

Mr. Pace voluntarily resigned as NaviSite's Senior Vice President, Sales and Marketing, which resignation was effective on June 3, 2005. Because Mr. Pace voluntarily resigned, he received no payments from NaviSite pursuant to his employment offer letter as a result of his resignation other than payments of base salary, commissions, car allowance and vacation accrued through the effective date of his resignation.

By Order of the Board of Directors,

Monique Cormier  
*Secretary*

March 14, 2006

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**APPENDIX I**

**WRITTEN CONSENT OF  
STOCKHOLDERS OF NAVISITE, INC.**

The undersigned, being the record holder of a majority of the issued and outstanding shares of Common Stock of NaviSite, Inc., a Delaware corporation (the "Company"), does hereby take the following actions and adopt the following resolutions in accordance with Section 228(a) of the General Corporation Law of the State of Delaware:

**WHEREAS**, NASD Rule 4350(i)(1)(A) requires that the issuer of stock secure stockholder approval prior to materially amending a stock option plan;

**WHEREAS**, the Board of Directors of the Company has approved an amendment (the "Amendment") to Section 4(a) of the Company's Amended and Restated 2003 Stock Incentive Plan (the "Plan"), subject to the approval of the Company's stockholders, to increase the maximum number of shares of Common Stock available for issuance pursuant to the Plan from 6,800,000 to 11,800,000 shares; and

**WHEREAS**, the Board of Directors of the Company is seeking stockholder approval of the Amendment.

**NOW, THEREFORE, BE IT RESOLVED**, that the amendment to Section 4(a) of the Plan to increase the number of shares of Common Stock of the Company issuable pursuant to the Plan from 6,800,000 to 11,800,000 shares be and hereby is authorized and approved.

**RESOLVED, FURTHER**, that the directors of the Company are hereby authorized and directed to take any such action as may be deemed necessary and advisable in order to carry out the purpose and intent of the foregoing resolutions.

The actions set forth in this Written Consent of Stockholder shall be effective on the first calendar day that is not less than 20 calendar days after the date that the definitive Schedule 14C information statement, as such term is defined in Rule 14c-1 promulgated under Regulation 14C of the Securities Exchange Act of 1934, as amended (Regulation 14C), relating to such actions is sent or given in accordance with Rule 14c-2 promulgated under Regulation 14C.

**IN WITNESS WHEREOF**, the undersigned stockholder has caused this Written Consent of Stockholders to be executed on the 23rd day of February, 2006.

ATLANTIC INVESTORS LLC

By: UNICORN WORLDWIDE HOLDINGS  
LIMITED, a managing member of Atlantic  
Investors LLC

By: /s/ S. J. MCNALLY

Name: S. J. McNally  
Title: Director



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**APPENDIX II**

**NAVISITE, INC.**

**AMENDED AND RESTATED**

**2003 STOCK INCENTIVE PLAN**

**1. Purpose**

The purpose of this Amended and Restated 2003 Stock Incentive Plan (the **Plan**) of NaviSite, Inc., a Delaware corporation (the **Company**), is to advance the interests of the Company's stockholders by enhancing the Company's ability to attract, retain and motivate persons who make (or are expected to make) important contributions to the Company by providing such persons with equity ownership opportunities and performance-based incentives and thereby better aligning the interests of such persons with those of the Company's stockholders. Except where the context otherwise requires, the term **Company** shall include any of the Company's present or future parent or subsidiary corporations as defined in Sections 424(e) or (f) of the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder (the **Code**) and any other business venture (including, without limitation, joint venture or limited liability company) in which the Company has a controlling interest, as determined by the Board of Directors of the Company (the **Board**).

**2. Eligibility**

All of the Company's employees, officers, directors, consultants and advisors are eligible to be granted options or restricted stock awards (each, an **Award**) under the Plan. Each person who has been granted an Award under the Plan shall be deemed a **Participant**.

**3. Administration and Delegation**

(a) **Administration by Board of Directors.** The Plan will be administered by the Board. The Board shall have authority to grant Awards and to adopt, amend and repeal such administrative rules, guidelines and practices relating to the Plan as it shall deem advisable. The Board may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem expedient to carry the Plan into effect and it shall be the sole and final judge of such expediency. All decisions by the Board shall be made in the Board's sole discretion and shall be final and binding on all persons having or claiming any interest in the Plan or in any Award. No director or person acting pursuant to the authority delegated by the Board shall be liable for any action or determination relating to or under the Plan made in good faith.

(b) **Appointment of Committees.** To the extent permitted by applicable law, the Board may delegate any or all of its powers under the Plan to one or more committees or subcommittees of the Board (a **Committee**). All references in the Plan to the **Board** shall mean the Board or a Committee of the Board or the executive officers referred to in Section 3(c) to the extent that the Board's powers or authority under the Plan have been delegated to such Committee or executive officers.

(c) **Delegation to Executive Officers.** To the extent permitted by applicable law, the Board may delegate to one or more executive officers of the Company the power to grant Awards to employees or officers of the Company or any of its present or future subsidiary corporations and to exercise such other powers under the Plan as the Board may determine, provided that the Board shall fix the terms of the Awards to be granted by such executive officers

(including the exercise price of such Awards, which may include a formula by which the exercise price will be determined) and the maximum number of shares subject to Awards that the executive officers may grant; provided further, however, that no executive officer shall be authorized to grant Awards to any executive officer of the Company (as defined by Rule 3b-7 under the Securities Exchange Act of 1934, as amended (the Exchange Act )) or to any officer of the Company (as defined by Rule 16a-1 under the Exchange Act).

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### **4. Stock Available for Awards**

(a) Number of Shares. Subject to adjustment under Section 7, Awards may be made under the Plan for up to 3,800,000 shares of common stock, \$.01 par value per share, of the Company (the Common Stock ). If any Award expires or is terminated, surrendered or canceled without having been fully exercised or is forfeited in whole or in part (including as the result of shares of Common Stock subject to such Award being repurchased by the Company at the original issuance price pursuant to a contractual repurchase right) or results in any Common Stock not being issued, the unused Common Stock covered by such Award shall again be available for the grant of Awards under the Plan, subject, however, in the case of Incentive Stock Options (as hereinafter defined), to any limitations under the Code. Shares issued under the Plan may consist in whole or in part of authorized but unissued shares or treasury shares.

(b) Per-Participant Limit. Subject to adjustment under Section 7, the maximum number of shares of Common Stock with respect to which Awards may be granted to any Participant under the Plan shall be 650,000 per calendar year. The per-Participant limit described in this Section 4(b) shall be construed and applied consistently with Section 162(m) of the Code ( Section 162(m) ).

### **5. Stock Options**

(a) General. The Board may grant options to purchase Common Stock (each, an Option ) and determine the number of shares of Common Stock to be covered by each Option, the exercise price of each Option and the conditions and limitations applicable to the exercise of each Option, including conditions relating to applicable federal or state securities laws, as it considers necessary or advisable. An Option which is not intended to be an Incentive Stock Option (as hereinafter defined) shall be designated a Nonstatutory Stock Option .

(b) Incentive Stock Options. An Option that the Board intends to be an incentive stock option as defined in Section 422 of the Code (an Incentive Stock Option ) shall only be granted to employees of NaviSite, Inc., any of NaviSite, Inc.'s present or future parent or subsidiary corporations as defined in Sections 424(e) or (f) of the Code, and any other entities the employees of which are eligible to receive Incentive Stock Options under the Code, and shall be subject to and shall be construed consistently with the requirements of Section 422 of the Code. The Company shall have no liability to a Participant, or any other party, if an Option (or any part thereof) that is intended to be an Incentive Stock Option is not an Incentive Stock Option.

(c) Exercise Price. The Board shall establish the exercise price at the time each Option is granted and specify it in the applicable option agreement.

(d) Duration of Options. Each Option shall be exercisable at such times and subject to such terms and conditions as the Board may specify in the applicable option agreement.

(e) Exercise of Option. Options may be exercised by delivery to the Company of a written notice of exercise signed by the proper person or by any other form of notice (including electronic notice) approved by the Board together with payment in full as specified in Section 5(f) for the number of shares for which the Option is exercised.

(f) Payment Upon Exercise. Common Stock purchased upon the exercise of an Option granted under the Plan shall be paid for as follows:

(1) in cash or by check, payable to the order of the Company;

(2) except as the Board may, in its sole discretion, otherwise provide in an option agreement, by (i) delivery of an irrevocable and unconditional undertaking by a creditworthy broker to deliver promptly to the Company sufficient

funds to pay the exercise price and any required tax withholding or (ii) delivery by the Participant to the Company of a copy of irrevocable and unconditional instructions to a creditworthy broker to deliver promptly to the Company cash or a check sufficient to pay the exercise price and any required tax withholding;

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(3) when the Common Stock is registered under the Securities Exchange Act of 1934 (the Exchange Act ), by delivery of shares of Common Stock owned by the Participant valued at their fair market value as determined by (or in a manner approved by) the Board in good faith ( Fair Market Value ), provided (i) such method of payment is then permitted under applicable law and (ii) such Common Stock, if acquired directly from the Company was owned by the Participant at least six months prior to such delivery;

(4) to the extent permitted by the Board, in its sole discretion by (i) delivery of a promissory note of the Participant to the Company on terms determined by the Board, or (ii) payment of such other lawful consideration as the Board may determine; or

(5) by any combination of the above permitted forms of payment.

(g) Substitute Options. In connection with a merger or consolidation of an entity with the Company or the acquisition by the Company of property or stock of an entity, the Board may grant Options in substitution for any options or other stock or stock-based awards granted by such entity or an affiliate thereof. Substitute Options may be granted on such terms as the Board deems appropriate in the circumstances, notwithstanding any limitations on Options contained in the other sections of this Section 5 or in Section 2.

## **6. Restricted Stock**

(a) Grants. The Board may grant Awards entitling recipients to acquire shares of Common Stock, subject to the right of the Company to repurchase all or part of such shares at their issue price or other stated or formula price (or to require forfeiture of such shares if issued at no cost) from the recipient in the event that conditions specified by the Board in the applicable Award are not satisfied prior to the end of the applicable restriction period or periods established by the Board for such Award (each, a Restricted Stock Award ).

(b) Terms and Conditions. The Board shall determine the terms and conditions of any such Restricted Stock Award, including the conditions for repurchase (or forfeiture) and the issue price, if any.

(c) Stock Certificates. Any stock certificates issued in respect of a Restricted Stock Award shall be registered in the name of the Participant and, unless otherwise determined by the Board, deposited by the Participant, together with a stock power endorsed in blank, with the Company (or its designee). At the expiration of the applicable restriction periods, the Company (or such designee) shall deliver the certificates no longer subject to such restrictions to the Participant or if the Participant has died, to the beneficiary designated, in a manner determined by the Board, by a Participant to receive amounts due or exercise rights of the Participant in the event of the Participant's death (the Designated Beneficiary ). In the absence of an effective designation by a Participant, Designated Beneficiary shall mean the Participant's estate.

## **7. Adjustments for Changes in Common Stock and Certain Other Events**

(a) Changes in Capitalization. In the event of any stock split, reverse stock split, stock dividend, recapitalization, combination of shares, reclassification of shares, spin-off or other similar change in capitalization or event, or any distribution to holders of Common Stock other than a normal cash dividend, (i) the number and class of securities available under this Plan, (ii) the per-Participant limit set forth in Section 4(b), (iii) the number and class of securities and exercise price per share subject to each outstanding Option, and (iv) the repurchase price per share subject to each outstanding Restricted Stock Award shall be appropriately adjusted by the Company (or substituted Awards may be made, if applicable) to the extent the Board shall determine, in good faith, that such an adjustment (or substitution) is necessary and appropriate. If this Section 7(a) applies and Section 7(c) also applies to any event, Section 7(c) shall be applicable to such event, and this Section 7(a) shall not be applicable.

(b) Liquidation or Dissolution. In the event of a proposed liquidation or dissolution of the Company, the Board shall upon written notice to the Participants provide that all then unexercised Options will (i) become exercisable in full as of a specified time at least 10 business days prior to the effective date of such liquidation or dissolution and (ii) terminate effective upon such liquidation or dissolution, except to the extent exercised

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before such effective date. The Board may specify the effect of a liquidation or dissolution on any Restricted Stock Award granted under the Plan at the time of the grant.

(c) Reorganization Events

(1) Definition. A Reorganization Event shall mean: (a) any merger or consolidation of the Company with or into another entity as a result of which all of the Common Stock of the Company is converted into or exchanged for the right to receive cash, securities or other property or (b) any exchange of all of the Common Stock of the Company for cash, securities or other property pursuant to a share exchange transaction.

(2) Consequences of a Reorganization Event on Options. Upon the occurrence of a Reorganization Event, or the execution by the Company of any agreement with respect to a Reorganization Event, the Board shall provide that all outstanding Options shall be assumed, or equivalent options shall be substituted, by the acquiring or succeeding corporation (or an affiliate thereof). For purposes hereof, an Option shall be considered to be assumed if, following consummation of the Reorganization Event, the Option confers the right to purchase, for each share of Common Stock subject to the Option immediately prior to the consummation of the Reorganization Event, the consideration (whether cash, securities or other property) received as a result of the Reorganization Event by holders of Common Stock for each share of Common Stock held immediately prior to the consummation of the Reorganization Event (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Common Stock); provided, however, that if the consideration received as a result of the Reorganization Event is not solely common stock of the acquiring or succeeding corporation (or an affiliate thereof), the Company may, with the consent of the acquiring or succeeding corporation, provide for the consideration to be received upon the exercise of Options to consist solely of common stock of the acquiring or succeeding corporation (or an affiliate thereof) equivalent in fair market value to the per share consideration received by holders of outstanding shares of Common Stock as a result of the Reorganization Event.

Notwithstanding the foregoing, if the acquiring or succeeding corporation (or an affiliate thereof) does not agree to assume, or substitute for, such Options, then the Board shall, upon written notice to the Participants, provide that all then unexercised Options will become exercisable in full as of a specified time prior to the Reorganization Event and will terminate immediately prior to the consummation of such Reorganization Event, except to the extent exercised by the Participants before the consummation of such Reorganization Event; provided, however, that in the event of a Reorganization Event under the terms of which holders of Common Stock will receive upon consummation thereof a cash payment for each share of Common Stock surrendered pursuant to such Reorganization Event (the Acquisition Price), then the Board may instead provide that all outstanding Options shall terminate upon consummation of such Reorganization Event and that each Participant shall receive, in exchange therefor, a cash payment equal to the amount (if any) by which (A) the Acquisition Price multiplied by the number of shares of Common Stock subject to such outstanding Options (whether or not then exercisable), exceeds (B) the aggregate exercise price of such Options. To the extent all or any portion of an Option becomes exercisable solely as a result of the first sentence of this paragraph, upon exercise of such Option the Participant shall receive shares subject to a right of repurchase by the Company or its successor at the Option exercise price. Such repurchase right (1) shall lapse at the same rate as the Option would have become exercisable under its terms and (2) shall not apply to any shares subject to the Option that were exercisable under its terms without regard to the first sentence of this paragraph.

(3) Consequences of a Reorganization Event on Restricted Stock Awards. Upon the occurrence of a Reorganization Event, the repurchase and other rights of the Company under each outstanding Restricted Stock Award shall inure to the benefit of the Company's successor and shall apply to the cash, securities or other property which the Common Stock was converted into or exchanged for pursuant to such Reorganization Event in the same manner and to the same extent as they applied to the Common Stock subject to such Restricted Stock Award.

**8. General Provisions Applicable to Awards**

(a) Transferability of Awards. Except as the Board may otherwise determine or provide in an Award, Awards shall not be sold, assigned, transferred, pledged or otherwise encumbered by the person to whom they

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are granted, either voluntarily or by operation of law, except by will or the laws of descent and distribution, and, during the life of the Participant, shall be exercisable only by the Participant. References to a Participant, to the extent relevant in the context, shall include references to authorized transferees.

(b) Documentation. Each Award shall be evidenced in such form (written, electronic or otherwise) as the Board shall determine. Each Award may contain terms and conditions in addition to those set forth in the Plan.

(c) Board Discretion. Except as otherwise provided by the Plan, each Award may be made alone or in addition or in relation to any other Award. The terms of each Award need not be identical, and the Board need not treat Participants uniformly.

(d) Termination of Status. The Board shall determine the effect on an Award of the disability, death, retirement, authorized leave of absence or other change in the employment or other status of a Participant and the extent to which, and the period during which, the Participant, the Participant's legal representative, conservator, guardian or Designated Beneficiary may exercise rights under the Award.

(e) Withholding. Each Participant shall pay to the Company, or make provision satisfactory to the Board for payment of, any taxes required by law to be withheld in connection with Awards to such Participant no later than the date of the event creating the tax liability. Except as the Board may otherwise provide in an Award, when the Common Stock is registered under the Exchange Act, Participants may satisfy such tax obligations in whole or in part by delivery of shares of Common Stock, including shares retained from the Award creating the tax obligation, valued at their Fair Market Value; provided, however, that the total tax withholding where stock is being used to satisfy such tax obligations cannot exceed the Company's minimum statutory withholding obligations (based on minimum statutory withholding rates for federal and state tax purposes, including payroll taxes, that are applicable to such supplemental taxable income). The Company may, to the extent permitted by law, deduct any such tax obligations from any payment of any kind otherwise due to a Participant.

(f) Amendment of Award. The Board may amend, modify or terminate any outstanding Award, including but not limited to, by substituting therefor another Award of the same or a different type, changing the date of exercise or realization, and converting an Incentive Stock Option to a Nonstatutory Stock Option, provided that the Participant's consent to such action shall be required unless the Board determines that the action, taking into account any related action, would not materially and adversely affect the Participant.

(g) Conditions on Delivery of Stock. The Company will not be obligated to deliver any shares of Common Stock pursuant to the Plan or to remove restrictions from shares previously delivered under the Plan until (i) all conditions of the Award have been met or removed to the satisfaction of the Company, (ii) in the opinion of the Company's counsel, all other legal matters in connection with the issuance and delivery of such shares have been satisfied, including any applicable securities laws and any applicable stock exchange or stock market rules and regulations, and (iii) the Participant has executed and delivered to the Company such representations or agreements as the Company may consider appropriate to satisfy the requirements of any applicable laws, rules or regulations.

(h) Acceleration. The Board may at any time provide that any Award shall become immediately exercisable in full or in part, free of some or all restrictions or conditions, or otherwise realizable in full or in part, as the case may be.

## **9. Miscellaneous**

(a) No Right to Employment or Other Status. No person shall have any claim or right to be granted an Award, and the grant of an Award shall not be construed as giving a Participant the right to continued employment or any other relationship with the Company. The Company expressly reserves the right at any time to dismiss or otherwise

terminate its relationship with a Participant free from any liability or claim under the Plan, except as expressly provided in the applicable Award.

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(b) No Rights as Stockholder. Subject to the provisions of the applicable Award, no Participant or Designated Beneficiary shall have any rights as a stockholder with respect to any shares of Common Stock to be distributed with respect to an Award until becoming the record holder of such shares. Notwithstanding the foregoing, in the event the Company effects a split of the Common Stock by means of a stock dividend and the exercise price of and the number of shares subject to such Option are adjusted as of the date of the distribution of the dividend (rather than as of the record date for such dividend), then an optionee who exercises an Option between the record date and the distribution date for such stock dividend shall be entitled to receive, on the distribution date, the stock dividend with respect to the shares of Common Stock acquired upon such Option exercise, notwithstanding the fact that such shares were not outstanding as of the close of business on the record date for such stock dividend.

(c) Effective Date and Term of Plan. The Plan shall become effective on the date on which it is adopted by the Board, but no Award granted to a Participant that is intended to comply with Section 162(m) shall become exercisable, vested or realizable, as applicable to such Award, unless and until the Plan has been approved by the Company's stockholders to the extent stockholder approval is required by Section 162(m) in the manner required under Section 162(m) (including the vote required under Section 162(m)). No Awards shall be granted under the Plan after the completion of ten years from the earlier of (i) the date on which the Plan was adopted by the Board or (ii) the date the Plan was approved by the Company's stockholders, but Awards previously granted may extend beyond that date.

(d) Amendment of Plan. The Board may amend, suspend or terminate the Plan or any portion thereof at any time, provided that to the extent required by Section 162(m), no Award granted to a Participant that is intended to comply with Section 162(m) after the date of such amendment shall become exercisable, realizable or vested, as applicable to such Award, unless and until such amendment shall have been approved by the Company's stockholders if required by Section 162(m) (including the vote required under Section 162(m)).

(e) Governing Law. The provisions of the Plan and all Awards made hereunder shall be governed by and interpreted in accordance with the laws of the State of Delaware, without regard to any applicable conflicts of law.

*Adopted by the Board of Directors on November 11, 2003.  
Approved by the Stockholders on December 9, 2003.*

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**AMENDMENT NO. 1 TO THE NAVISITE, INC.**

**AMENDED AND RESTATED  
2003 STOCK INCENTIVE PLAN**

The Amended and Restated 2003 Stock Incentive Plan (the *Plan*) of NaviSite, Inc. is hereby amended as follows (capitalized terms used herein and not defined herein shall have the respective meaning ascribed to such terms in the *Plan*):

1. Section 4(a) of the *Plan* shall be deleted in its entirety and replaced with the following:

(a) **Number of Shares.** Subject to adjustment under Section 7, Awards may be made under the *Plan* for up to 6,800,000 shares of common stock, \$.01 par value per share, of the Company (the *Common Stock*). If any Award expires or is terminated, surrendered or canceled without having been fully exercised or is forfeited in whole or in part (including as the result of shares of *Common Stock* subject to such Award being repurchased by the Company at the original issuance price pursuant to a contractual repurchase right) or results in any *Common Stock* not being issued, the unused *Common Stock* covered by such Award shall again be available for the grant of Awards under the *Plan*, subject, however, in the case of Incentive Stock Options (as hereinafter defined), to any limitations under the Code. Shares issued under the *Plan* may consist in whole or in part of authorized but unissued shares or treasury shares.

2. Except as aforesaid, the *Plan* shall remain in full force and effect.

*Adopted by the Board of Directors on May 6, 2004.*

*Approved by the Stockholders on May 6, 2004.*

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**AMENDMENT NO. 2 TO THE NAVISITE, INC.**

**AMENDED AND RESTATED  
2003 STOCK INCENTIVE PLAN**

The Amended and Restated 2003 Stock Incentive Plan (the Plan ) of NaviSite, Inc. is hereby amended as follows (capitalized terms used herein and not defined herein shall have the respective meaning ascribed to such terms in the Plan):

1. Section 4(a) of the Plan shall be deleted in its entirety and replaced with the following:

(a) Number of Shares. Subject to adjustment under Section 7, Awards may be made under the Plan for up to 11,800,000 shares of common stock, \$.01 par value per share, of the Company (the Common Stock ). If any Award expires or is terminated, surrendered or canceled without having been fully exercised or is forfeited in whole or in part (including as the result of shares of Common Stock subject to such Award being repurchased by the Company at the original issuance price pursuant to a contractual repurchase right) or results in any Common Stock not being issued, the unused Common Stock covered by such Award shall again be available for the grant of Awards under the Plan, subject, however, in the case of Incentive Stock Options (as hereinafter defined), to any limitations under the Code. Shares issued under the Plan may consist in whole or in part of authorized but unissued shares or treasury shares.

2. Except as aforesaid, the Plan shall remain in full force and effect.

*Adopted by the Board of Directors on January 27, 2006.  
Approved by the Stockholders on February 23, 2006.*