NAVISITE INC
Form DEFM14A
March 23, 2011

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

SCHEDULE 14A

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

Filed by the Registrant þ

Filed by a Party other than the Registrant o

Check the appropriate box:

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

NAVISITE, INC.
(Name of Registrant as Specified In Its Charter)
N/A
(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

o No fee required.

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

(1) Title of each class of securities to which transaction applies: Common Stock, par value $0.01 per share of NaviSite, Inc., and Series A Convertible Preferred Stock, par value $0.01 per share of NaviSite, Inc.

(2) Aggregate number of securities to which transaction applies: As of February 24, 2011, there were outstanding: (i) 38,319,352 shares of Common Stock (including restricted shares); (ii) options to purchase 5,771,379 shares of Common Stock with exercise prices less than $5.50 per share; (iii) 21,664 shares of Common Stock underlying purchase rights under our employee stock purchase plan; (iv) warrants to purchase 1,200,131 shares of Common Stock; and (v) 4,335,726 shares of Series A Convertible Preferred Stock.

(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): The maximum aggregate value was determined based upon the sum of (i) 37,881,351 shares of Common Stock multiplied by $5.50 per share; (ii) options to purchase 5,771,379 shares of Common Stock with exercise prices less than $5.50 per share multiplied by $2.65 (which is the difference between $5.50 and the weighted average exercise price of $2.85 per share); (iii) 21,664 shares of Common Stock underlying purchase rights under our

employee stock purchase plan multiplied by $2.35 per share (which is the difference between $5.50 and the assumed purchase price of $3.15 per share of such purchase rights; (iv) warrants with respect to 1,200,131 shares of Common Stock multiplied by $5.49 per share (which is the difference between $5.50 and the exercise price of such warrants); and (v) 4,335,726 shares of Series A Convertible Preferred Stock multiplied by $8.00 per share. In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying $0.00011610 by the sum of the preceding sentence.

(4) Proposed maximum aggregate value of transaction: $264,967,023

(5) Total fee paid: $30,763

þ Fee paid previously with preliminary materials.

o 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:

Table of Contents

NaviSite, Inc.
400 Minuteman Road
Andover, Massachusetts 01810
March 23, 2011

Dear Stockholder:

You are cordially invited to attend a special meeting of stockholders of NaviSite, Inc. (the Company) to be held on April 20, 2011 at 9:00 a.m., Eastern Time, at the Westin Boston Waterfront, 425 Summer Street, Boston, Massachusetts 02210. At the special meeting, you will be asked to consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated as of February 1, 2011, by and among the Company, Time Warner Cable Inc., a Delaware corporation, and Avatar Merger Sub Inc., a Delaware corporation and a wholly-owned subsidiary of Time Warner Cable Inc., pursuant to which the Company will be acquired by Time Warner Cable Inc. If the merger is completed, you, (i) as a holder of the Company s common stock, will be entitled to receive $5.50 in cash, or (ii) as a holder of the Company s Series A Convertible Preferred Stock, will be entitled to receive $8.00 in cash, in each case, without interest and less any applicable withholding tax, for each share of the Company s common stock or the Company s Series A Convertible Preferred Stock, as applicable, you own at the consummation of the merger (unless you have properly and validly perfected and not withdrawn your statutory rights of appraisal under Delaware law with respect to the merger).

Our board of directors determined that the merger and the other transactions contemplated by the merger agreement are fair to, and in the best interests of, the Company s stockholders and approved and declared advisable the merger, the merger agreement and the other transactions contemplated by the merger agreement. **Our board of directors unanimously recommends that you vote FOR the proposal to adopt the merger agreement and FOR the proposal to adjourn the meeting, if necessary or appropriate, to solicit additional proxies.**

The proxy statement attached to this letter provides you with information about the proposed merger and the special meeting of the Company s stockholders. We encourage you to read the entire proxy statement carefully. You may also obtain more information about the Company from documents we have filed with the Securities and Exchange Commission.

Your vote is important regardless of the number of shares of the Company s common stock or the Company s Series A Convertible Preferred Stock you own. Because the adoption of the merger agreement requires the affirmative vote of the holders of a majority in voting power of all of the issued and outstanding shares of the Company s common stock and the Company s Series A Convertible Preferred Stock, voting together as a single class, that are entitled to vote at the special meeting, a failure to vote or an abstention will have the same effect as a vote against the merger.

Accordingly, you are requested to submit your proxy by promptly completing, signing and dating the enclosed proxy card and returning it in the envelope provided or to submit your proxy by telephone or via the Internet in accordance with the instructions set forth in the proxy card prior to the special meeting, whether or not you plan to attend the special meeting. Submitting your proxy will not prevent you from voting your shares in person if you subsequently choose to attend the special meeting. If you hold your shares through a broker, bank or other nominee, you should follow the procedures provided by your broker, bank or other nominee.

Table of Contents

Thank you for your cooperation and continued support.

Cordially,

R. Brooks Borcherding
President and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

The proxy statement is dated March 23, 2011 and is first being mailed to stockholders on or about March 23, 2011.

Table of Contents

NaviSite, Inc.
400 Minuteman Road
Andover, Massachusetts 01810

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD APRIL 20, 2011

Dear Stockholder:

A special meeting of stockholders of NaviSite, Inc., a Delaware corporation (the Company), will be held on April 20, 2011, at 9:00 a.m., Eastern Time, at the Westin Boston Waterfront, 425 Summer Street, Boston, Massachusetts 02210 for the following purposes:

1. To consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of February 1, 2011 (which we refer to as the merger agreement), by and among the Company, Time Warner Cable Inc., a Delaware corporation, and Avatar Merger Sub Inc., a Delaware corporation and wholly owned subsidiary of Time Warner Cable Inc., as it may be amended from time to time, as more fully described in the accompanying proxy statement;

2. To consider and vote upon a proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement; and

3. To transact such other business as may properly come before the special meeting, or any adjournment or postponement of the special meeting, by or at the direction of the board of directors of the Company.

Only stockholders as of the record date, March 14, 2011, are entitled to notice of and to vote at the special meeting or at any adjournment or postponement of the special meeting. All stockholders as of the record date are cordially invited to attend the special meeting in person.

Your vote is very important, regardless of the number of shares of the Company s common stock or the Company s Series A Convertible Preferred Stock you own. The adoption of the merger agreement requires the affirmative vote of the holders of a majority in voting power of all of the issued and outstanding shares of the Company s common stock and the Company s Series A Convertible Preferred Stock, voting together as a single class, that are entitled to vote at the special meeting. The approval of the proposal to adjourn the special meeting requires the affirmative vote of a majority in voting power of the shares of the Company s common stock and the Company s Series A Convertible Preferred Stock, voting together as a single class, present in person or represented by proxy at the special meeting and entitled to vote on the matter.

Holders of the Company s common stock and the Company s Series A Convertible Preferred Stock that do not vote in favor of the adoption of the merger agreement are entitled to appraisal rights under Delaware law in connection with the merger if they comply with the requirements of Delaware law explained in the accompanying proxy statement.

Even if you plan to attend the special meeting in person, we request that you complete, sign, date and return the enclosed proxy in the envelope provided, or submit your proxy by telephone by calling 1-800-652-8683 or via the Internet at www.investorvote.com/NAVI in accordance with the instructions set forth in the proxy card prior to the special meeting and thus ensure that your shares will be represented at the special meeting if you are unable to attend. If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be counted as a vote in favor of adoption of the merger agreement and in favor of adjournment of the special

meeting, if necessary or appropriate, to permit solicitations of additional proxies. You may revoke your proxy at or at any time prior to the special meeting.

Table of Contents

If you hold your shares through a broker, bank or other nominee, please follow the instructions provided by your broker, bank or other nominee.

If you fail to vote by proxy or in person, your shares will effectively be counted as a vote against adoption of the merger agreement and will not be counted for purposes of determining whether a quorum is present at the special meeting or for purposes of the vote to adjourn the special meeting, if necessary or appropriate, to permit solicitations of additional proxies.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO ADOPT THE MERGER AGREEMENT AND FOR ANY PROPOSAL TO ADJOURN THE SPECIAL MEETING, IF NECESSARY OR APPROPRIATE, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE INSUFFICIENT VOTES AT THE TIME OF THE SPECIAL MEETING TO ADOPT THE MERGER AGREEMENT.

By order of the board of directors,

Thomas B. Rosedale
Secretary

Table of Contents

Table of Contents

	Page
QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER	1
SUMMARY TERM SHEET	8
CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION	16
THE PARTIES TO THE MERGER	17
THE SPECIAL MEETING	18
Time, Place and Purpose of the Special Meeting	18
Record Date; Shares Entitled to Vote; Quorum	18
Required Vote	19
Shares Held by NaviSite Directors and Executive Officers	19
Voting of Proxies	19
Revocability of Proxies	20
Solicitation of Proxies	20
Stockholder List	20
THE MERGER	21
Background of the Merger	21
Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement	31
Opinion of Raymond James & Associates, Inc. to the Special Committee	36
Financial Projections	42
Interests of the Company s Directors and Executive Officers in the Merger	44
Material United States Federal Income Tax Consequences	51
Regulatory Approvals	53
The Voting Agreements	54
The Warrant Holders Agreement	55
Delisting and Deregistration of Common Stock	55
Legal Proceedings Regarding the Merger	55
THE MERGER AGREEMENT	56
Effective Time	56
Structure	57
Conversion of Common Stock and Series A Convertible Preferred Stock	57
Exchange and Payment Procedures	57
Treatment of Warrants	58
Treatment of Series A Convertible Preferred Stock	58
Treatment of Stock Options, Restricted Stock and Other Equity Awards	59
Dissenting Shares	59
Representations and Warranties	59
Conduct of Our Business Pending the Merger	62
No Solicitation of Takeover Proposals	64
Company Board Recommendation	66
Stockholders Meeting	67
Employee Benefit Arrangements	67
Other Covenants and Agreements	68
Agreement to Use Reasonable Best Efforts	69

Conditions to the Merger	70
Termination	71

Table of Contents

	Page
Termination Fees and Expenses	72
Amendment and Waiver	72
Remedies	72
MARKET PRICE OF THE COMPANY S COMMON STOCK AND DIVIDEND INFORMATION	73
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	73
APPRAISAL RIGHTS OF DISSENTING STOCKHOLDERS	75
SUBMISSION OF STOCKHOLDER PROPOSALS	78
WHERE YOU CAN FIND ADDITIONAL INFORMATION	79
ANNEX A Agreement and Plan of Merger, dated as of February 1, 2011, among Time Warner Cable Inc., Avatar Merger Sub Inc. and NaviSite, Inc.	A-1
ANNEX B Opinion of Raymond James & Associates, Inc.	B-1
ANNEX C Section 262 of the Delaware General Corporation Law	C-1
ANNEX D-1 Voting Agreement with Atlantic Investors, LLC and Arthur Becker	D-1
ANNEX D-2 Voting Agreement with netASPx Holdings, Inc.	D-2
ANNEX E Warrant Holders Agreement	E-1

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

The following questions and answers address briefly some questions you may have regarding the special meeting and the proposed merger. These questions and answers may not address all questions that may be important to you as a stockholder of NaviSite, Inc. Please refer to the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to or incorporated by reference in this proxy statement.

Except as otherwise specifically noted in this proxy statement, NaviSite, the Company, we, our, us and similar w refer to NaviSite, Inc. Throughout this proxy statement we also refer to Time Warner Cable Inc. as TWC and Avatar Merger Sub Inc. as Merger Sub.

The Proposed Merger

Q: What will happen in the proposed merger?

A: Upon the terms and subject to the conditions of the Agreement and Plan of Merger, dated as of February 1, 2011, by and among the Company, TWC and Merger Sub (which we refer to in this proxy statement as the merger agreement), Merger Sub will be merged with and into the Company with the Company continuing as the surviving corporation and a wholly owned subsidiary of TWC.

Q: What will I receive in the merger?

A: Upon completion of the merger, if you are a holder of the Company s common stock, you will be entitled to receive $5.50 in cash (which we refer to in this proxy statement as the common stock merger consideration), without interest and less any required withholding taxes, for each share of the Company s common stock that you own, unless you have properly and validly perfected and not withdrawn your statutory rights of appraisal with respect to the merger under Delaware law. For example, if you own 100 shares of our common stock at the effective time of the merger, you will be entitled to receive $550.00 in cash in exchange for such 100 shares of our common stock, less any required withholding taxes. You will not own shares in the surviving corporation.

If you are a holder of the Company s Series A Convertible Preferred Stock, you will be entitled to receive $8.00 in cash in accordance with the terms of the Certificate of Designation of Rights, Preferences, Privileges and Restrictions of Series A Convertible Preferred Stock of NaviSite, Inc. (which we refer to in this proxy statement as the preferred stock merger consideration), without interest and less any required withholding taxes, for each share of the Company s Series A Convertible Preferred Stock that you own, unless you have properly and validly perfected and not withdrawn your statutory rights of appraisal with respect to the merger under Delaware law. For example, if you own 100 shares of our Series A Convertible Preferred Stock at the effective time of the merger, you will be entitled to receive $800.00 in cash in exchange for such 100 shares of our Series A Convertible Preferred Stock, less any required withholding taxes. You will not own shares in the surviving corporation.

Q: What will happen in the merger to outstanding stock options, restricted shares and other equity awards?

A: *Stock Options.* At the effective time of the merger, each outstanding unexercised option to purchase our common stock issued under our equity incentive plans, other than our Amended and Restated 1999 Employee Stock

Purchase Plan (which we refer to in this proxy statement as the ESPP), whether vested or unvested, will be canceled and the holder thereof will be entitled to receive only a cash payment equal to the product of the total number of shares of our common stock subject to the option as of the effective time multiplied by the excess, if any, of $5.50 over the exercise price per share of our common stock subject to such option, less applicable withholding taxes. Options with an exercise price per share equal to or greater than $5.50 will be canceled with no consideration paid to the holder thereof.

Restricted Stock. At the effective time of the merger, all shares of restricted stock issued under our equity incentive plans which are outstanding shall become free of restrictions, and any such restricted stock that

is then outstanding, whether vested or unvested, will be canceled and the holder of each such award will be entitled to receive only a cash payment of $5.50 per share of restricted stock, less any applicable withholding taxes.

However, each share of restricted stock issued under our Amended and Restated 2003 Stock Incentive Plan that is subject to performance-based vesting and which would not otherwise vest in accordance with its terms as of the effective time, will, at the effective time of the merger, be canceled without any cash payment to the holder thereof, except as described in The Merger Interests of the Company s Directors and Executive Officers in the Merger Treatment of Performance-Based Restricted Shares beginning on page 46.

Q: What will happen in the merger to the Company s Amended and Restated 1999 Employee Stock Purchase Plan?

A: A date that is at least ten (10) days prior to the effective time of the merger (which date will be determined by the board of directors) will be treated as the final purchase date for purposes of the ESPP. Each outstanding award under the ESPP will be exercised on the final purchase date for the purchase of shares of our common stock in accordance with the terms of the ESPP, and the Company will refund to each participant in the ESPP all amounts remaining in such participant s account after such purchase. In addition, the Company has agreed to terminate the ESPP as of the effective time of the merger.

Q: How does the merger consideration compare to the market price of the Company s common stock?

A: The merger consideration of $5.50 per share to be received by holders of our common stock represents a premium of approximately 37.5% over the closing price of our common stock on the NASDAQ Capital Market on January 31, 2011, the trading day immediately prior to the date that the proposed transaction with TWC was publicly announced, a premium of approximately 43.2% over the average closing price of our common stock on the NASDAQ Capital Market over the 30-day period ending on such date, and a premium of approximately 106% over the closing price of our common stock of $2.67 on the NASDAQ Capital Market on July 9, 2010, the trading day immediately prior to the date that the Company received an unsolicited proposal from its largest stockholder, Atlantic Investors, LLC (which we refer to in this proxy statement as Atlantic), for the purchase of all of the outstanding common stock not then owned by Atlantic at a purchase price of $3.05. The closing sale price of our common stock on the NASDAQ Capital Market on March 22, 2011 was $5.49. You are encouraged to obtain current market quotations for our common stock in connection with voting your shares.

Q: What effects will the proposed merger have on the Company?

A: Following completion of the proposed merger, the Company will cease to be a publicly traded company and will be wholly owned by TWC. As a result, you will no longer have any interest in our future earnings or growth, if any. Following completion of the merger, the registration of our common stock and our reporting obligations with respect to our common stock under the Securities Exchange Act of 1934, as amended (which we refer to in this proxy statement as the Exchange Act), are expected to be terminated. In addition, following completion of the proposed merger, shares of our common stock will no longer be listed on the NASDAQ Capital Market.

Q: When do you expect the merger to be completed?

A: We are working toward completing the merger as quickly as possible and currently expect to consummate the merger before the end of the second calendar quarter of 2011. However, the exact timing and likelihood of completion of the merger cannot be predicted because the merger is subject to certain conditions, including adoption of the merger agreement by our stockholders and the receipt of regulatory approvals.

Q: What happens if the merger is not completed?

A: If the merger agreement is not adopted by our stockholders, or if the merger is not completed for any other reason, our stockholders will not receive any payment for their shares pursuant to the merger agreement. Instead, the Company will remain as a public company and our common stock will continue to be

registered under the Exchange Act and listed and traded on the NASDAQ Capital Market. Under specified circumstances, we may be required to pay TWC a termination fee and/or certain of TWC s out-of-pocket costs and expenses, as described in The Merger Agreement Termination Fees and Expenses beginning on page 72.

Q: Am I entitled to exercise appraisal rights instead of receiving the merger consideration for my shares?

A: Yes. Our stockholders are entitled to appraisal rights under Delaware law by following the requirements specified in Section 262 of the General Corporation Law of the State of Delaware (which we refer to in this proxy statement as the DGCL). A copy of Section 262 is attached as Annex C to this proxy statement. See Appraisal Rights of Dissenting Stockholders beginning on page 75.

Q: Do any of the Company s executive officers or directors have any interests in the merger that may differ from or be in addition to my interests as a stockholder?

A: Yes. In considering the recommendation of the board of directors with respect to the merger agreement, you should be aware that some of the Company s directors and officers have interests in the merger that are different from, or in addition to, the interests of our stockholders generally. For descriptions of these interests, please see the section entitled The Merger Interests of the Company s Directors and Executive Officers in the Merger beginning on page 44.

Q: What are the U.S. federal income tax consequences of the merger to holders of the Company s common stock or the Company s Series A Convertible Preferred Stock?

A: The receipt of cash in exchange for our common stock or our Series A Convertible Preferred Stock will be a taxable transaction for U.S. federal income tax purposes for U.S. holders and may also be taxable under applicable state, local, foreign or other tax laws. In general, U.S. holders of our common stock or our Series A Convertible Preferred Stock who receive cash in exchange for their shares pursuant to the merger will recognize gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the holder s adjusted tax basis in the shares exchanged and the amount of cash received. If the U.S. holder holds our common stock or our Series A Convertible Preferred Stock as a capital asset, any gain or loss generally should be capital gain or loss. If the U.S. holder has held the shares for more than one year, any gain or loss generally should be long-term capital gain or loss. The deductibility of capital losses is subject to limitations. In general, the merger will not be a taxable transaction for U.S. federal income tax purposes for non-U.S. holders of our common stock or our Series A Convertible Preferred Stock unless the non-U.S. holders have certain connections to the United States.

Tax matters are very complex, and the tax consequences of the merger to you will depend on the facts of your own situation. You should consult your tax advisor for a full understanding of the tax consequences of the merger to you, including the federal, state, local and foreign tax consequences of the merger. See The Merger Material United States Federal Income Tax Consequences beginning on page 51.

The Special Meeting

Q: Why am I receiving this proxy statement?

A: Our board of directors is furnishing this proxy statement in connection with the solicitation of proxies to be voted at a special meeting of stockholders or at any adjournments or postponements of the special meeting.

Q: Where and when is the special meeting?

A: The special meeting will be held on April 20, 2011, at 9:00 a.m., at the Westin Boston Waterfront, 425 Summer Street, Boston, Massachusetts 02210.

Q: What am I being asked to vote on?

A: You are being asked to vote on a proposal to adopt the merger agreement that provides for the acquisition of the Company by TWC. The proposed acquisition would be accomplished through a merger of Merger Sub, a wholly owned subsidiary of TWC, with and into the Company (which we refer to in this proxy

Table of Contents

statement as the merger). As a result of the merger, the Company, which will be the surviving corporation in the merger, will become a subsidiary of TWC and the Company s common stock will cease to be listed on the NASDAQ Capital Market, will not be publicly traded and will be deregistered under the Exchange Act.

In addition, you are being asked to approve a proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes in favor of adopting the merger agreement at the time of the special meeting.

Q: How does the Company s board of directors recommend that I vote?

A: Our board of directors unanimously recommends that our stockholders vote **FOR** the proposal to adopt the merger agreement and **FOR** the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement. You should read The Merger Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement beginning on page 31 for a discussion of the factors that our board of directors considered in deciding to recommend the adoption of the merger agreement.

Q: What is a quorum?

A: A quorum of the holders of the outstanding shares of our common stock and our Series A Convertible Preferred Stock must be present for the special meeting to be held. A quorum is present if the holders of a majority in voting power of the issued and outstanding shares of our common stock and our Series A Convertible Preferred Stock, voting together as a single class, entitled to vote on the record date are present at the meeting, either in person or represented by proxy. Abstentions, if any, are counted as present for the purpose of determining whether a quorum is present. Broker non-votes, if any, will not be counted as present for the purpose of determining whether a quorum is present. Broker non-votes occur in respect of shares held in street name when the broker indicates that voting instructions for a particular matter have not been received from the beneficial owners or other persons entitled to vote those shares and the broker does not have discretionary voting authority to vote those shares on that particular matter.

Voting and Proxy Procedures

Q: Who is entitled to vote at the special meeting?

A: Only stockholders as of the close of business on March 14, 2011 or the record date, are entitled to receive notice of the special meeting and to vote at the special meeting, or at any adjournments or postponements of the special meeting, the shares of our common stock or our Series A Convertible Preferred Stock that they held on the record date. Each outstanding share of our common stock and our Series A Convertible Preferred Stock on the record date entitles the holder to one vote at the special meeting. The Company s common stock and the Company s Series A Convertible Preferred Stock vote together as a single class.

Q: What vote of our stockholders is required to adopt the merger agreement?

A: Adoption of the merger agreement requires the affirmative vote of the holders of a majority in voting power of all the issued and outstanding shares of our common stock and our Series A Convertible Preferred Stock, voting together as a single class, that are entitled to vote at the special meeting. Accordingly, failure to vote or an abstention will have the same effect as a vote against adoption of the merger agreement. For the purpose of the vote on the merger, each share of our common stock and our Series A Convertible Preferred Stock will carry one vote.

Q: What vote of our stockholders is required to approve the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes in favor of adopting the merger agreement at the time of the special meeting?

A: Approval of the proposal to adjourn the special meeting, if necessary or appropriate, for the purpose of soliciting additional proxies requires the affirmative vote of a majority in voting power of the shares of our common stock and our Series A Convertible Preferred Stock, voting together as a single class, present in person or represented by proxy at the special meeting and entitled to vote on the matter.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Yes, but only if you provide instructions to your broker on how to vote. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. Without those instructions, your shares will not be voted, which will have the same effect as voting against the adoption of the merger agreement, but will have no effect on the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional votes.

Q: What do I need to do now?

A: We urge you to read this proxy statement carefully, including its annexes, and then mail your completed, dated and signed proxy card in the enclosed return envelope as soon as possible, or submit your proxy via the Internet or telephone, in accordance with the instructions provided on the enclosed proxy card or voting instruction form, so that your shares can be voted at the special meeting of stockholders.

PLEASE DO NOT SEND YOUR STOCK CERTIFICATES WITH YOUR PROXY CARD. YOU WILL RECEIVE DETAILED INSTRUCTIONS CONCERNING EXCHANGE OF YOUR STOCK CERTIFICATES IF THE MERGER IS CONSUMMATED.

Q: May I attend the special meeting and vote in person?

A: Yes. All stockholders as of the record date may attend the special meeting and vote in person. Only persons with evidence of stock ownership or who are guests of the Company may attend and be admitted to the special meeting. Photo identification will be required (a valid driver s license or passport is preferred). If your shares are registered in the name of a broker, bank or other nominee, you need to bring a valid form of proxy or a letter from that broker, bank or other nominee or your most recent brokerage account statement that confirms that you are the beneficial owner of those shares.

If you do not have proof that you own shares, you will not be admitted to the special meeting. Seating will be limited. No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the special meeting.

Even if you plan to attend the special meeting in person, we urge you to complete, sign, date and return the enclosed proxy or submit your proxy via the Internet or telephone to ensure that your shares will be represented at the special meeting.

Q: How do I vote my shares?

A:

If your shares are registered in your name, you may vote your shares by completing, signing, dating and returning the enclosed proxy card or you may vote in person at the special meeting. Additionally, you may submit a proxy authorizing the voting of your shares over the Internet at www.investorvote.com/NAVI or telephonically by calling 1-800-652-8683. Proxies submitted over the Internet or by telephone must be received by 5:00 p.m., Eastern Time, on April 19, 2011. You must have the enclosed proxy card available, and follow the instructions on the proxy card, in order to submit a proxy over the Internet or telephone. Based on your Internet or telephone proxy, the proxy holders will vote your shares according to your directions.

If your shares are held in street name through a broker, bank or other nominee you should follow the directions provided by your broker, bank or other nominee regarding how to instruct your broker, bank or other nominee to vote your shares.

Q: Can I change or revoke my proxy?

A: You have the right to change or revoke your proxy at any time before the vote taken at the special meeting:

- by delivering a written notice to our Secretary, Thomas B. Rosedale, at BRL Law Group LLC, 425 Boylston Street, Third Floor, Boston, Massachusetts 02116 bearing a date later than the proxy you previously delivered stating that you would like to revoke your proxy;

- by attending the special meeting and voting in person (your attendance at the special meeting will not, by itself, revoke your proxy; you must vote in person at the special meeting);

- by submitting a later-dated proxy; or

- by submitting a new proxy by telephone or the Internet, provided that the new proxy is received by 5:00 p.m., Eastern Time, on April 19, 2011.

Please note that if you hold your shares in street name through a broker, bank or other nominee and you have instructed your broker, bank or other nominee to vote your shares, the above-described options for changing your vote do not apply, and instead you must follow the instructions received from your broker, bank or other nominee to change your vote.

Q: What happens if I do not return my proxy card by mail, submit a proxy via the Internet or by telephone or attend the special meeting and vote in person?

A: The adoption of the merger agreement requires the affirmative vote of the holders of a majority in voting power of all the issued and outstanding shares of our common stock and our Series A Convertible Preferred Stock, voting together as a single class, that are entitled to vote at the special meeting. Therefore, if you do not return your proxy card, submit a proxy via the Internet or by telephone, or attend the special meeting and vote in person, it will have the same effect as if you voted AGAINST adoption of the merger agreement. In the event that a quorum is not present at the special meeting, it is expected that the meeting will be adjourned to solicit additional proxies. If a quorum is present in person or represented by proxy at the special meeting, approval of any proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies, requires the affirmative vote of the holders of a majority in voting power of the shares of our common stock and our Series A Convertible Preferred Stock, voting together as a single class, present in person or represented by proxy and entitled to vote on the matter. If you do not vote in person or by proxy, it will have no effect on the voting on any proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies.

Q: What happens if I sell or otherwise transfer my shares of the Company s common stock or the Company s Series A Convertible Preferred Stock before the special meeting?

A: The record date for the special meeting is earlier than the date of the special meeting and the date the merger is expected to be completed. If you sell or otherwise transfer your shares of the Company s common stock or the Company s Series A Convertible Preferred Stock after the record date but before the special meeting, you will generally retain your right to vote at the special meeting (subject to arrangements made with the transferee of such shares), but you will transfer the right to receive the common stock merger consideration or preferred stock merger consideration, as applicable, to the person to whom you transfer your shares. In addition, if you sell your shares prior to the special meeting or prior to the effective time of the merger, you will not be eligible to exercise your appraisal rights in respect of the merger. Even if you sell or otherwise transfer your shares of the Company s

common stock or the Company s Series A Convertible Preferred Stock after the record date, we urge you to complete, sign, date and return the enclosed proxy or submit your proxy via the Internet or telephone.

Q: What should I do if I receive more than one set of voting materials?

A: You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in

which you hold shares. If you are a stockholder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return by mail (or submit via the Internet or by telephone) each proxy card and voting instruction card that you receive.

Q: Will a proxy solicitor be used?

A. Yes. The Company has engaged D.F. King & Co., Inc. to assist in the solicitation of proxies for the special meeting, and the Company estimates it will pay D.F. King & Co., Inc. a fee of approximately $8,500 plus reasonable administrative and out-of-pocket expenses incurred in connection with the proxy solicitation.

Q: Who can help answer my other questions?

A: If you would like additional copies, without charge, of this proxy statement or if you have questions about the merger, including the procedures for voting your shares, you should contact:

D.F. King & Co., Inc.
48 Wall Street, 22nd Floor
New York, NY 10005
Toll free: 1-800-628-8532
Banks and brokers call: (212) 269-5550
Email: navisite@dfking.com

If you hold shares in street name through a broker, bank or other nominee, you should also contact your broker, bank or other nominee for additional information.

Important Notice Regarding Internet Availability of Proxy Materials for the Special Meeting of Stockholders to be held on April 20, 2011. The Proxy Statement is available at www.navisiteproxy.com.

SUMMARY TERM SHEET

The following summary highlights selected information from this proxy statement and may not contain all of the information that may be important to you. Accordingly, we encourage you to read carefully this entire proxy statement, its annexes and the documents referred to or incorporated by reference in this proxy statement. See Where You Can Find Additional Information beginning on page 79. The merger agreement is attached as Annex A to this proxy statement. We encourage you to read the merger agreement, which is the legal document that governs the merger.

The Parties to the Merger (page 17)

NaviSite, Inc.
400 Minuteman Road
Andover, Massachusetts 01810
(978) 946-8611

The Company, a Delaware corporation, is a leading worldwide provider of enterprise-class, cloud-enabled hosting, managed applications and services. The Company provides a full suite of reliable and scalable managed services, including Application Services, industry-leading Enterprise Hosting, and Managed Cloud Services for enterprises looking to outsource IT infrastructure and lower their capital and operational costs. Enterprise customers depend on the Company for customized solutions, delivered through a global footprint of state-of-the-art data centers.

Time Warner Cable Inc.
60 Columbus Circle
New York, New York 10023
(212) 364-8200

Time Warner Cable Inc., a Delaware corporation, is the second-largest cable operator in the U.S., with technologically advanced, well-clustered systems located mainly in five geographic areas New York State (including New York City), the Carolinas, Ohio, southern California (including Los Angeles) and Texas. TWC serves more than 14 million customers who subscribe to one or more of its video, high-speed data and voice services. Time Warner Cable Business Class offers a suite of phone, Internet, Ethernet and cable television services to businesses of all sizes. Time Warner Cable Media, the advertising arm of TWC, offers national, regional and local companies innovative advertising solutions that are targeted and affordable.

Avatar Merger Sub Inc.
c/o Time Warner Cable Inc.
60 Columbus Circle
New York, New York 10023
(212) 364-8200

Avatar Merger Sub Inc. is a Delaware corporation and a wholly-owned subsidiary of TWC. Avatar Merger Sub Inc. was formed solely for the purpose of entering into the merger agreement and consummating the transactions contemplated by the merger agreement. It has not conducted any activities to date other than activities incidental to its formation and in connection with the transactions contemplated by the merger agreement.

The Merger (page 21)

The merger agreement provides that, at the effective time of the merger, Merger Sub will merge with and into the Company. In the merger, each share of the Company s common stock and the Company s Series A Convertible Preferred Stock that is outstanding immediately prior to the effective time of the merger (other than shares owned by TWC, Merger Sub or any other wholly-owned subsidiary of TWC, shares owned by the Company or any subsidiary of the Company and shares owned by stockholders who have perfected and not

forfeited, lost or withdrawn a demand for appraisal rights in connection with the merger under Delaware law) will be converted into the right to receive $5.50 per share in cash and $8.00 per share in cash, respectively, without interest and less any applicable withholding tax.

The Special Meeting

Time, Place and Purpose of the Special Meeting (page 18)

The special meeting will be held on April 20, 2011 starting at 9:00 a.m., Eastern Time, at the Westin Boston Waterfront, 425 Summer Street, Boston, Massachusetts 02210.

At the special meeting, you will be asked to consider and vote upon a proposal to adopt the merger agreement, and to approve a proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies and to transact such other business as may properly come before the special meeting.

Record Date; Shares Entitled to Vote; Quorum (page 18)

You are entitled to vote at the special meeting if you owned shares of our common stock or our Series A Convertible Preferred Stock at the close of business on March 14, 2011, the record date for the special meeting. The presence at the meeting, in person or by proxy, of a majority in voting power of the shares of our common stock and our Series A Convertible Preferred Stock issued and outstanding as of the close of business on the record date will constitute a quorum. On the record date, there were 39,557,215 shares of our common stock and 4,335,726 shares of our Series A Convertible Preferred Stock outstanding. The Company s common stock and the Company s Series A Convertible Preferred Stock vote together as a single class.

Required Vote (page 19)

The adoption of the merger agreement requires the affirmative vote of the holders of a majority in voting power of all the issued and outstanding shares of our common stock and our Series A Convertible Preferred Stock issued and outstanding, voting together as a single class, that are entitled to vote at the special meeting. Each outstanding share of our common stock and our Series A Convertible Preferred Stock on the record date entitles the holder to one vote at the special meeting. A failure to vote your shares of our common stock or our Series A Convertible Preferred Stock or an abstention will have the same effect as a vote against adoption of the merger agreement. Approval of the proposal to adjourn the special meeting, if necessary or appropriate, for the purpose of soliciting additional proxies requires the affirmative vote of the holders of a majority in voting power of the shares of our common stock and our Series A Convertible Preferred Stock, voting together as a single class, present in person or by proxy at the special meeting and entitled to vote on the matter. Failure to vote your shares of our common stock or our Series A Convertible Preferred Stock will have no effect on the approval of the proposal to adjourn the special meeting but an abstention will have the same effect as a vote against the proposal to adjourn the special meeting.

Shares Held by NaviSite Directors and Executive Officers (page 19)

As of the record date, the directors and executive officers of the Company held, directly or indirectly, and are entitled to vote, in the aggregate, 1,999,389 shares of the Company s common stock (excluding options), representing approximately 5.1% of the aggregate shares of our common stock and our Series A Convertible Preferred Stock issued and outstanding, and voting together as a single class, as of the record date. No director or executive officer holds or is entitled to vote any shares of our Series A Convertible Preferred Stock. The directors and executive officers of the Company intend to vote their shares FOR the proposal to adopt the merger agreement and FOR the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies.

Voting of Proxies (page 19)

Any Company stockholder entitled to vote whose shares are registered in their name may submit a proxy by telephone by calling 1-800-652-8683 or via the Internet at www.investorvote.com/NAVI, in accordance with

the instructions provided on the enclosed proxy card, or by returning the enclosed proxy card by mail, or may vote in person by appearing at the special meeting.

If your shares are held in street name by your broker, bank or other nominee you should instruct your broker, bank or other nominee on how to vote your shares using the instructions provided by your broker, bank or other nominee. If you do not provide your broker, bank or other nominee with instructions, your shares will not be voted and that will have the same effect as a vote against the proposal to adopt the merger agreement.

Revocability of Proxies (page 20)

Any stockholder who executes and returns a proxy card (or submits a proxy via telephone or the Internet) may revoke the proxy at any time before it is voted at the special meeting:

- by delivering a written notice to our Secretary, Thomas B. Rosedale, at BRL Law Group LLC, 425 Boylston Street, Third Floor, Boston, Massachusetts 02116 bearing a date later than the proxy previously delivered stating that you would like to revoke your proxy;
- by attending the special meeting and voting in person (your attendance at the special meeting will not, by itself, revoke your proxy; you must vote in person at the special meeting);
- by submitting a later-dated proxy; or
- by submitting a new proxy by telephone or Internet, provided that the new proxy is received by 5:00 p.m., Eastern Time, on April 19, 2011.

Please note that if you hold your shares in street name through a broker, bank or other nominee and you have instructed your broker, bank or other nominee to vote your shares, the above-described options for changing your vote do not apply, and instead you must follow the instructions received from your broker, bank or other nominee to change your vote.

Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement (page 31)

The special committee of independent directors of our board of directors (which we refer to in this proxy statement as the special committee) that was appointed to review and evaluate the merger has unanimously determined that the merger agreement is in the best interests of the Company and the stockholders of the Company and recommended to our full board of directors that the board of directors approve the merger agreement. After considering the unanimous recommendation of the special committee, our board of directors has unanimously (i) determined that the merger agreement and the transactions contemplated thereby, including the merger, are advisable and in the best interests of the Company and its stockholders, (ii) approved the merger agreement, the merger and the other transactions contemplated by the merger agreement and (iii) resolved to recommend that the stockholders of the Company adopt the merger agreement at a special meeting of the stockholders. **The board of directors recommends that you vote FOR the proposal to adopt the merger agreement and FOR the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies.**

In reaching its decision, the board of directors evaluated a variety of business, financial and market factors and consulted with financial and legal advisors. See The Merger Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement beginning on page 31.

Opinion of Raymond James & Associates, Inc. to the Special Committee (page 36 and Annex B)

Raymond James & Associates, Inc. (which we refer to in this proxy statement as Raymond James) delivered its opinion to the special committee that, as of February 1, 2011 and based upon and subject to the factors and assumptions set forth therein, the $5.50 per share in cash to be paid to the holders (other than the

Company, TWC and Merger Sub and any of their respective subsidiaries) of shares of the Company s common stock pursuant to the merger agreement was fair from a financial point of view to such holders.

The full text of the written opinion of Raymond James, dated February 1, 2011, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached to this proxy statement as Annex B. Raymond James provided its opinion for the information and assistance of the Company s special committee in connection with its consideration of the merger. Raymond James opinion is not a recommendation as to how any holder of the Company s common stock should vote with respect to the merger. Pursuant to an engagement letter between the Company and Raymond James, we agreed to pay Raymond James a transaction fee of 1% of the value of all cash, securities and other property or other assets paid or payable or received, including debt, liabilities and obligations which are assumed in connection with the merger agreement and the transactions contemplated thereby, which is approximately $3,172,000, at the closing of the merger, with all fees we have or will have paid to Raymond James prior to the closing credited towards such transaction fee, including $350,000 for the fairness opinion, a retainer of $50,000 and four (4) monthly payments of $37,500. Raymond James has advised us that it has not been employed by TWC or any of its affiliates.

Interests of the Company s Directors and Executive Officers in the Merger (page 44)

In considering the recommendation of the Company s board of directors with respect to the merger agreement, stockholders should be aware that members of the Company s board of directors and executive officers have interests in the merger that may be different from, or in addition to, the interests of the Company s stockholders generally. For the executive officers and Arthur Becker, the completion of the merger will result in, among other things, the accelerated vesting of stock options and other equity based awards (other than certain performance-based restricted stock awards held by certain of our executive officers), and the payment of severance benefits in the event the executive officer experiences a qualified termination of employment after the merger, including, if applicable, a tax gross-up relating to golden parachute excise taxes resulting from such accelerations, payments and benefits. For the members of the Company s board of directors, the completion of the merger will result in the acceleration of all of their unvested and outstanding equity-based awards (other than certain performance-based restricted stock awards held by Arthur Becker). Current and former directors and executive officers of the Company are entitled to continued indemnification and insurance coverage under the merger agreement. For the approximate value of the potential benefits that could be received by the executive officers and the directors, see The Merger Interests of the Company s Directors and Executive Officers in the Merger beginning on page 44. The members of the Company s board of directors were aware of these interests, and considered them, when they approved the merger agreement.

Material United States Federal Income Tax Consequences (page 51)

If you are a U.S. holder of our common stock or our Series A Convertible Preferred Stock, the merger will be a taxable transaction to you. For U.S. federal income tax purposes, your receipt of cash in exchange for your shares of the Company s common stock or the Company s Series A Convertible Preferred Stock generally will cause you to recognize a gain or loss measured by the difference, if any, between the cash you receive in the merger and your adjusted tax basis in your shares. If you are a non-U.S. holder of our common stock or our Series A Convertible Preferred Stock, the merger will generally not be a taxable transaction to you under U.S. federal income tax laws unless you have certain connections to the United States. You should consult your own tax advisor for a full understanding of how the merger will affect your taxes.

Regulatory Approvals (page 53)

The HSR Act prohibits us from completing the merger until we have furnished certain information and materials to the Antitrust Division of the U.S. Department of Justice and the Federal Trade Commission and the required waiting

period has expired or been terminated. The parties filed their respective notification and report forms pursuant to the HSR Act with the Antitrust Division of the U.S. Department of Justice and the Federal Trade Commission on February 15, 2011 and the required waiting period expired on March 17, 2011.

The Voting Agreements (page 54 and Annex D-1 and D-2)

Concurrently with the execution of the merger agreement, Atlantic and Arthur Becker, who own an aggregate of approximately 36.7% of our common stock outstanding as of the record date, and netASPx Holdings, Inc., who owns approximately 93% of our Series A Convertible Preferred Stock outstanding as of the record date, entered into voting agreements with TWC (each of which we refer to in this proxy statement as a voting agreement and collectively, the voting agreements), pursuant to which such stockholders agreed, among other things, to vote their shares of our common stock or our Series A Convertible Preferred Stock, as applicable, in favor of adoption of the merger agreement and against any action, approval or agreement that would compete with, impede, interfere with, or otherwise prevent or inhibit the adoption of the merger agreement or the consummation of the transactions contemplated by the merger agreement. Each of the stockholders that executed a voting agreement has also agreed to vote his or its shares against any action, approval or agreement that would result in any of the conditions to our obligations under the merger agreement not being fulfilled or satisfied or against any breach of a representation, warranty, covenant or agreement in the merger agreement and against any amendment of our certificate of incorporation or our bylaws. The shares covered by the voting agreements are referred to in this proxy statement as the covered shares. If the merger agreement terminates in accordance with its terms, including if the merger agreement is terminated by the Company after our board of directors changes its recommendation based upon the receipt of a takeover proposal which constitutes a superior proposal, these voting agreements will also terminate. The number of shares of our common stock and our Series A Convertible Preferred Stock subject to the voting agreements represents approximately 42.3% of the aggregate voting power of our common stock and our Series A Convertible Preferred Stock, voting together as a single class, as of the record date. However, in the event that the Company s board of directors validly makes a company adverse recommendation change in response to a takeover proposal which constitutes a superior proposal but the merger agreement is not terminated by TWC or the Company, the number of each stockholder s covered shares subject to the requirements under the voting agreement will be reduced, on a *pro rata* basis with each other stockholder of the Company who executed a similar voting agreement in connection with the merger to the extent necessary in order that the aggregate number of covered shares subject to and required to be voted in accordance with such other similar voting agreements represents no more than 32% of the voting securities of the Company outstanding at the time of such vote and entitled to vote.

The Warrant Holders Agreement (page 55 and Annex E)

Concurrently with the execution of the merger agreement, SPCP Group, LLC and SPCP Group III, LLC, who together own warrants to purchase 1,200,131 shares of the Company s common stock, entered into a warrant holders agreement (which we refer to in this proxy statement as the warrant holders agreement) with the Company. The Company, SPCP Group, LLC and SPCP Group III, LLC each agreed that, at the effective time of the merger, each warrant to purchase the Company s common stock held by SPCP Group, LLC or SPCP Group III, LLC will be canceled and converted into the right to receive a cash payment equal to the product of the total number of unexercised shares of our common stock subject to the warrant as of the effective time multiplied by the excess, if any, of $5.50 over the exercise price per share of our common stock subject to such warrant, less any applicable withholding taxes.

Legal Proceedings Regarding the Merger (page 55)

On February 8, 2011, a purported class action lawsuit was filed against the Company, TWC, Merger Sub, our directors and certain of our officers in the United States District Court for the District of Massachusetts. The lawsuit alleges, among other things, breach of fiduciary duty by the directors and officers in connection with the acquisition contemplated by the merger agreement, and asserts aiding and abetting claims against the Company, TWC and Merger Sub. Subsequently, on March 9, 2011, the plaintiff in this lawsuit filed an amended complaint, including the same allegations described above and adding an allegation that the directors and officers breached their fiduciary duty by making inadequate disclosures in our preliminary proxy statement. The plaintiff seeks certain equitable relief,

including enjoining the acquisition, and attorney s fees and other costs. We, our board of directors and TWC believe that this lawsuit is without merit and intend to vigorously defend our position.

On February 9, 2011, a second purported class action lawsuit was filed against the Company, TWC, Merger Sub and our directors in the Superior Court, Business Litigation Session, of Suffolk County of the Commonwealth of Massachusetts. The lawsuit alleges, among other things, that our directors breached their fiduciary duties in connection with the acquisition contemplated by the merger agreement by, among other things, failing to maximize the value of the Company, and asserts a claim for aiding and abetting the breach of fiduciary duty claim against the Company, TWC and Merger Sub. The plaintiff seeks equitable relief, including enjoining the acquisition, to rescind the transaction if not enjoined, damages, attorneys fees and other costs. We, our board of directors and TWC believe the claims are without merit and intend to vigorously defend against the claims asserted in the lawsuit.

On March 23, 2011, the Company, TWC, and the plaintiffs in both lawsuits entered into a Memorandum of Understanding providing for the settlement of both lawsuits. The Memorandum of Understanding provides that, in consideration for the settlement of both lawsuits, the Company agreed to make certain additional disclosures in this proxy statement regarding the background of the events leading to the signing of the merger agreement and with respect to certain analyses undertaken by Raymond James in connection with Raymond James s assessment of the fairness to the Company s stockholders, from a financial point of view, of the common stock merger consideration. At this point, the settlement agreement is not final and is subject to a number of future events including approval of the settlement by the United States District Court for the District of Massachusetts. In addition, in connection with the settlement and as provided in the Memorandum of Understanding, and subject to approval by the court, the Company (or any successor-in-interest) or its insurer will pay to plaintiffs counsel for both lawsuits their fees and expenses in an amount not to exceed $360,000. **This payment will not affect the amount of consideration to be paid to stockholders of the Company in connection with the merger.** Furthermore, any payment is also conditioned on the merger being consummated so the Company s stockholders will not indirectly bear such payment. There can be no assurance that the settlement will be finalized or that the court will approve the settlement. The settlement terms provide that the lawsuits will be dismissed with prejudice against all defendants.

The defendants in the lawsuits, including the Company, each have denied, and continue to deny, all liability with respect to the facts and claims alleged in the lawsuits. The defendants do not admit that the Company s preliminary proxy statement contains any inadequate disclosure or that any of the information included in the preliminary proxy statement filed with the SEC is material or required by any applicable rule, statute, regulation or law. The proposed settlement is not, and should not be construed as, an admission of wrongdoing or liability by any defendant. The defendants in the lawsuits, including the Company, believe the lawsuits are without merit and they entered into the Memorandum of Understanding solely to avoid the burdens and expense of further litigation.

Treatment of Stock Options, Restricted Stock and Other Equity Awards (page 59)

Stock Options. At the effective time of the merger, each outstanding unexercised option to purchase our common stock issued under our equity incentive plans, other than the ESPP, whether vested or unvested, will be canceled and the holder thereof will be entitled to receive only a cash payment equal to the product of the total number of shares of our common stock subject to the option as of the effective time multiplied by the excess, if any, of $5.50 over the exercise price per share of our common stock subject to such option, less applicable withholding taxes. Options with an exercise price per share equal to or greater than $5.50 will be canceled with no consideration paid to the holder thereof.

Restricted Stock. At the effective time of the merger, all shares of restricted stock issued under our equity incentive plans which are outstanding shall become free of restrictions, and any such restricted stock that is then outstanding, whether vested or unvested, will be canceled and the holder of each such award will be entitled to receive only a cash payment of $5.50 per share of restricted stock, less any applicable withholding taxes.

However, each share of restricted stock issued under our Amended and Restated 2003 Stock Incentive Plan that is subject to performance-based vesting and which is not then vested or would not otherwise vest in accordance with its terms as of the effective time, shall, at the effective time of the merger, be canceled

without any cash payment to the holder thereof, except as described in The Merger Interests of the Company s Directors and Executive Officers in the Merger Treatment of Performance-Based Restricted Shares beginning on page 46.

Employee Stock Purchase Plan. A date not less than ten (10) days prior to the effective time (which date shall be determined by the board of directors) will be treated as the final purchase date for purposes of the ESPP. Each outstanding award under the ESPP will be exercised on the final purchase date for the purchase of shares of our common stock in accordance with the terms of the ESPP, and the Company will refund to each participant in the ESPP all amounts remaining in such participant s account after such purchase.

No Solicitation of Takeover Proposals (page 64)

The merger agreement restricts our ability to solicit or engage in discussions or negotiations with a third party regarding specified transactions involving the Company. Notwithstanding these restrictions, in certain circumstances, our board of directors may respond to an unsolicited takeover proposal or terminate the merger agreement and enter into an agreement with respect to a superior proposal after paying the termination fee and expense reimbursement specified in the merger agreement.

Conditions to the Merger (page 70)

Each party s obligation to effect the merger is subject to the satisfaction or waiver, to the extent applicable, of the following conditions:

- the adoption of the merger agreement by our stockholders;
- the expiration or termination of the waiting period under the HSR Act; any required approvals, authorizations or consents of a governmental entity having been obtained or the expiration or termination of any applicable waiting periods thereunder; and
- the absence of any injunction or other order by a governmental entity that restrains, enjoins or prohibits consummation of the transactions contemplated by the merger agreement.

TWC and Merger Sub will not be obligated to effect the merger unless the following additional conditions are satisfied or waived:

- the accuracy of the Company s representations and warranties to the extent required under the merger agreement as described under The Merger Agreement Conditions to the Merger ;
- the performance, in all material respects, by the Company of its obligations under the merger agreement required to be performed at or prior to the closing date;
- our delivery to TWC of a certificate signed on behalf of the Company certifying that the conditions described in the preceding two bullets have been satisfied; and
- the absence of any Company Material Adverse Effect.

We will not be obligated to effect the merger unless the following additional conditions are satisfied or waived:

the accuracy of TWC s representations and warranties to the extent required under the merger agreement as described under The Merger Agreement Conditions to the Merger ;

the performance, in all material respects, by TWC and Merger Sub of their obligations under the merger agreement required to be performed at or prior to the closing date; and

TWC s and Merger Sub s delivery to us of a certificate signed on behalf of TWC and Merger Sub certifying that the conditions described in the preceding two bullets have been satisfied.

Termination of the Merger Agreement (page 71)

The merger agreement may be terminated and the merger may be abandoned at any time prior to the effective time of the merger, whether before or after stockholder approval has been obtained, as follows:

- by mutual written consent of TWC and the Company;
- by either TWC or the Company, by delivery of written notice to the other, if:
  - the Company s stockholders do not adopt the merger agreement at the special meeting or any postponement or adjournment thereof;
  - an order, decree, judgment, injunction enacted or entered or other action taken by any governmental entity that permanently restrains, enjoins or otherwise prohibits or makes illegal the consummation of the transactions contemplated by the merger agreement, and such order, decree, judgment, injunction or other action becomes final and non-appealable (provided that the right to terminate the merger agreement pursuant to the foregoing shall not be available to a party if the issuance of such order or action was primarily due to the failure of such party to perform any of its obligations under the merger agreement); or
  - the closing has not occurred on or before August 1, 2011 (provided that the right to terminate the merger agreement pursuant to the foregoing shall not be available to a party whose failure to comply with any provision of the merger agreement in any material respect is the primary reason for the failure of the merger to close by August 1, 2011; provided, further, that the Company may not terminate the merger agreement pursuant to the foregoing until three (3) business days after the meeting of the Company s stockholders if the Company postpones or adjourns the Company s stockholder s meeting to a date past August 1, 2011);
- by either TWC or the Company, in the event the other party breaches any of its representations, warranties or covenants in the merger agreement, such that the non-mutual conditions to the terminating party s obligation to close would not be satisfied and such breach is not curable or, if curable, is not cured within 25 business days after written notice is given by the terminating party;
- by the Company if, prior to adoption of the merger agreement by our stockholders, our board of directors receives an unsolicited takeover proposal which constitutes a superior proposal (subject to the requirements of the non-solicitation provisions of the merger agreement, including TWC s right to make a proposal to cause such takeover proposal not to constitute a superior proposal, and provided that the Company is not in breach of such non-solicitation provisions);
- by either TWC or the Company, in the event (i) the terminating party has satisfied all of its non-mutual conditions to the other party s obligation to close and has given two (2) business days notice to the other party of such satisfaction of its closing conditions and the merger has not been consummated and (ii) the terminating party has agreed to waive the failure of the other party to meet a non-mutual condition to the terminating party s obligation to close other than, in the case of the Company, no waiver of TWC s obligation to fund and pay the merger consideration and closing option merger consideration (provided that the right to terminate the merger agreement pursuant to the foregoing shall not be available if the terminating party s failure to comply, in any material respect, with the merger agreement is the primary reason for the failure of the merger to be consummated within the two (2) business day period); or
- by TWC if:

our board of directors effects a company adverse recommendation change; or

we breach the non-solicitation provisions of the merger agreement in any material respect, as described under Merger Agreement No Solicitation of Takeover Proposals and Merger Agreement Company Board Recommendation .

Termination Fees and Expenses (page 72)

We have agreed to pay to TWC a termination fee (which we refer to in this proxy statement as the termination fee) in cash in an amount equal to $7.5 million plus up to $1.5 million in out-of-pocket costs and expenses of TWC and Merger Sub (which we refer to in this proxy statement as the TWC expenses) if:

TWC terminates the merger agreement because (i) our board of directors effects a company adverse recommendation change or (ii) we breach the non-solicitation provisions of the merger agreement in any material respect; or

we terminate the merger agreement because our board of directors receives an unsolicited takeover proposal which constitutes a superior proposal (subject to the requirements of the non-solicitation provisions of the merger agreement, including TWC s right to make a proposal to cause such takeover proposal not to constitute a superior proposal, and provided that the Company is not in breach of such non-solicitation provisions).

We have also agreed to pay to TWC the TWC expenses if:

we or TWC terminate the merger agreement because the merger agreement is not adopted by the stockholders at the special meeting or any postponement or adjournment thereof, and a takeover proposal has been publicly announced and such takeover proposal is not unconditionally publicly withdrawn prior to the date of the Company s stockholder s meeting (which we refer to in this proxy statement as a no vote termination).

Further, we have agreed to pay to TWC an amount equal to the termination fee if:

within nine (9) months after a no vote termination, the Company consummates, or enters into a contract providing for the implementation of, a takeover proposal, and a takeover proposal is subsequently consummated (with 51% being substituted for 20% in the definition of takeover proposal under the merger agreement).

Market Price of the Company s Common Stock (page 73)

Our common stock is listed on the NASDAQ Capital Market under the trading symbol NAVI . On January 31, 2011, which was the last full trading day before we announced the transaction, the Company s common stock closed at $4.00 per share. On March 22, 2011, which was the last trading day before the date of this proxy statement, the Company s common stock closed at $5.49 per share.

Appraisal Rights of Dissenting Stockholders (page 75 and Annex C)

Under Delaware law, holders of common stock or Series A Convertible Preferred Stock who do not vote in favor of the proposal to adopt the merger agreement will have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the merger is completed, but only if they comply with all requirements of Delaware law, which are summarized in this proxy statement. The judicially determined appraisal amount could be more than, the same as or less than the merger consideration. Any stockholder intending to exercise appraisal rights, among other things, must submit a written demand for an appraisal to us prior to the stockholder vote on the proposal to adopt the merger agreement and must not vote or otherwise submit a proxy in favor of adoption of the merger agreement and must otherwise strictly comply with all of the procedures required by Delaware law. Your failure to follow exactly the procedures specified under Delaware law will result in the loss of your appraisal rights. A copy of the relevant section of Delaware law is attached hereto as Annex C.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This proxy statement, and the documents to which we refer you in this proxy statement, contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include information concerning possible or assumed future results of operations of the

Company, the expected completion and timing of the merger and other information relating to the merger. There are forward-looking statements throughout this proxy statement, including, among others, under the headings Questions and Answers about the Special Meeting and the Merger, Summary Term Sheet, The Merger, The Merger Opinion o Raymond James & Associates, Inc. to the Special Committee, The Merger Regulatory Approvals, The Merger Legal Proceedings Regarding the Merger and in statements containing words such as anticipate, believe, could, estimate, expect, intend, may, plan, predict, project, will and similar terms and phrases. Although the Company beli assumptions upon which these forward-looking statements are based are reasonable, any of these assumptions could prove to be inaccurate and the forward-looking statements based on these assumptions could be incorrect. The Company s operations involve risks and uncertainties, many of which are outside the Company s control, and any one of which, or a combination of which, could materially affect the Company s results of operations and whether the forward-looking statements ultimately prove to be correct. These forward-looking statements speak only as of the date on which the statements were made and we undertake no obligation to update or revise any forward-looking statements made in this proxy statement or elsewhere as a result of new information, future events or otherwise. Actual results and trends in the future may differ materially from those suggested or implied by the forward-looking statements depending on a variety of factors including, but not limited to:

- the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement and the possibility that the Company could be required to pay a termination fee of $7.5 million plus $1.5 million in out-of-pocket expenses of TWC and Merger Sub in connection with the merger;
- the outcome of the legal proceedings that have been instituted against us and others following announcement of the merger agreement;
- risks that the regulatory approvals required to complete the merger will not be obtained in a timely manner, if at all;
- the inability to complete the merger due to the failure to obtain stockholder approval or failure to satisfy any other conditions to the completion of the merger;
- the amount of the costs, fees, expenses and charges related to the merger;
- diversion of management time on merger-related issues;
- the effect of the announcement of the merger on our business and customer relationships, operating results and business generally, including our ability to retain key employees;
- risks that the proposed transaction disrupts current plans and operations;
- other risks detailed in our current filings with the SEC, including our most recent filing on Form 10-K and including but not limited to the risks detailed in the section entitled Risk Factors. See Where You Can Find Additional Information beginning on page 79.

All future written and oral forward-looking statements attributable to the Company or persons acting on behalf of the Company are expressly qualified in their entirety by the previous statements.

THE PARTIES TO THE MERGER

NaviSite, Inc.

The Company, a Delaware corporation, is a leading worldwide provider of enterprise-class, cloud-enabled hosting, managed applications and services. The Company provides a full suite of reliable and scalable managed services, including Application Services, industry-leading Enterprise Hosting, and Managed Cloud Services for enterprises looking to outsource IT infrastructure and lower their capital and operational costs. Enterprise customers depend on the Company for customized solutions, delivered through a global footprint of

17

state-of-the-art data centers. Our principal executive offices are located at 400 Minuteman Road, Andover, Massachusetts 01810, and our telephone number is (978) 946-8611.

Time Warner Cable Inc.

Time Warner Cable Inc., a Delaware corporation, is the second-largest cable operator in the U.S., with technologically advanced, well-clustered systems located mainly in five geographic areas New York State (including New York City), the Carolinas, Ohio, southern California (including Los Angeles) and Texas. TWC serves more than 14 million customers who subscribe to one or more of its video, high-speed data and voice services. Time Warner Cable Business Class offers a suite of phone, Internet, Ethernet and cable television services to businesses of all sizes. Time Warner Cable Media, the advertising arm of TWC, offers national, regional and local companies innovative advertising solutions that are targeted and affordable. TWC s principal executive offices are located at 60 Columbus Circle, New York, New York 10023, and its telephone number is (212) 364-8200.

Avatar Merger Sub Inc.

Avatar Merger Sub Inc. is a Delaware corporation and a wholly owned subsidiary of TWC. Merger Sub was organized solely for the purpose of entering into the merger agreement and consummating the transactions contemplated by the merger agreement. It has not conducted any activities to date other than activities incidental to its formation and in connection with the transactions contemplated by the merger agreement. Under the terms of the merger agreement, at the effective time of the merger, Merger Sub will merge with and into us. The Company will survive the merger and Merger Sub will cease to exist. Merger Sub s principal executive offices are located at c/o TWC, 60 Columbus Circle, New York, New York 10023, and its telephone number is (212) 364-8200.

THE SPECIAL MEETING

Time, Place and Purpose of the Special Meeting

This proxy statement is being furnished to our stockholders as part of the solicitation of proxies by our board of directors for use at the special meeting to be held on April 20, 2011, starting at 9:00 a.m., Eastern Time, at the Westin Boston Waterfront, 425 Summer Street, Boston, Massachusetts 02210, or at any postponement or adjournment thereof. The purpose of the special meeting is for our stockholders to consider and vote upon a proposal to adopt the merger agreement as it may be amended from time to time and, if there are not sufficient votes in favor of adoption of the merger agreement, to consider and vote on a proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies. At this time, we know of no other matters to be submitted to our stockholders at the special meeting. If any other matters properly come before the special meeting or any adjournment or postponement of the special meeting, it is the intention of the persons named in the enclosed proxy card to vote the shares they represent in accordance with their judgment.

Our stockholders must adopt the merger agreement for the merger to occur. If the stockholders fail to adopt the merger agreement, the merger will not occur. A copy of the merger agreement is attached to this proxy statement as Annex A. This proxy statement and the enclosed form of proxy are first being mailed to our stockholders on or about March 23, 2011.

Record Date; Shares Entitled to Vote; Quorum

The holders of record of the Company s common stock and the Company s Series A Convertible Preferred Stock as of the close of business on March 14, 2011, the record date for the special meeting, are entitled to receive notice of, and to vote at, the special meeting. On the record date, there were 39,557,215 shares of our common stock outstanding and

4,335,726 shares of our Series A Convertible Preferred Stock outstanding. The Company s common stock and the Company s Series A Convertible Preferred Stock vote together as a single class.

A quorum of stockholders is necessary to hold a valid special meeting. The presence of the holders of a majority in voting power of the shares of our common stock and our Series A Convertible Preferred Stock issued and outstanding as of the close of business on the record date in person or by proxy will constitute a quorum for purposes of the special meeting.

Shares of our common stock and our Series A Convertible Preferred Stock held by persons attending the special meeting but not voting, or shares for which the Company has received proxies with respect to which holders have abstained from voting, will be considered abstentions. For purposes of determining the presence or absence of a quorum, abstentions will be counted as present, but broker non-votes (where a broker, bank or other nominee does not have discretionary authority to vote on a matter, as described in more detail below under Voting of Proxies) will not be counted as present.

Required Vote

Adoption of the merger agreement requires the affirmative vote of the holders of a majority in voting power of all the issued and outstanding shares of our common stock and our Series A Convertible Preferred Stock, voting together as a single class, that are entitled to vote at the special meeting. Each outstanding share of our common stock and our Series A Convertible Preferred Stock on the record date entitles the holder to one vote at the special meeting. Approval of the proposal to adjourn the special meeting, if necessary or appropriate, for the purpose of soliciting additional proxies requires the affirmative vote of the holders of a majority in voting power of our common stock and our Series A Convertible Preferred Stock, voting together as a single class, present in person or by proxy at the special meeting and entitled to vote on the matter.

If a stockholder abstains from voting, it will have the same effect as a vote against adoption of the merger agreement and the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies. Each broker non-vote will also have the same effect as a vote against adoption of the merger agreement but will have no effect on the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies.

Shares Held by NaviSite Directors and Executive Officers

As of the close of business on March 14, 2011, the record date, our directors and executive officers held and are entitled to vote, in the aggregate, 1,999,389 shares of our common stock (excluding options), representing approximately 5.1% of the aggregate common stock outstanding as of the record date. None of the directors and executive officers hold or are entitled to vote shares of our Series A Convertible Preferred Stock. The directors and executive officers of the Company intend to vote their shares FOR the proposal to adopt the merger agreement and FOR the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies.

Voting of Proxies

If your shares are registered in your name you may cause your shares to be voted by returning a signed proxy card or you may vote in person at the special meeting. Additionally, you may submit a proxy authorizing the voting of your shares over the Internet at www.investorvote.com/NAVI or telephonically by calling 1-800-652-8683. Proxies submitted over the Internet or by telephone must be received by 5:00 p.m., Eastern Time, on April 19, 2011. You must have the enclosed proxy card available, and follow the instructions on the proxy card, in order to submit a proxy over the Internet or telephone. Based on your Internet and telephone proxies, the proxy holders will vote your shares according to your directions.

If you plan to attend the special meeting and wish to vote in person, you will be given a ballot at the meeting. If your shares are registered in your name, you are encouraged to vote by proxy even if you plan to attend the special meeting

in person.

Voting instructions are included on your proxy card. All shares represented by properly executed proxies received in time for the special meeting will be voted at the special meeting in accordance with the instructions of the stockholder. If your proxy card is properly executed, but no instructions are indicated on

your proxy card, your shares of our common stock or our Series A Convertible Preferred Stock will be voted in accordance with the recommendation of the board of directors to vote FOR the adoption of the merger agreement and FOR the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies.

If your shares are held in street name through a broker, bank or other nominee, you should instruct your broker, bank or other nominee how to vote your shares using the instructions provided by your broker, bank or other nominee. If you have not received such voting instructions or require further information regarding such voting instructions, contact your broker, bank or other nominee and they can give you directions on how to vote your shares. If you do not provide voting instructions to your broker, bank or other nominee, your shares will not be voted on any proposal on which your broker, bank or other nominee does not have discretionary authority to vote. This is called a broker non-vote. Organizations who hold shares in street name for customers may not exercise their voting discretion with respect to the approval of non-routine matters such as the proposal to adopt the merger agreement. If you do not instruct your broker, bank or other nominee how to vote, or do not attend the special meeting and vote in person with a legal proxy from your broker, bank or other nominee, it will have the same effect as if you voted against adoption of the merger agreement.

Revocability of Proxies

You have the right to change or revoke your proxy at any time before the vote taken at the special meeting:

by delivering a written notice to our Secretary, Thomas B. Rosedale, at BRL Law Group LLC, 425 Boylston Street, Third Floor, Boston, Massachusetts 02116 bearing a date later than the proxy you previously delivered stating that you would like to revoke your proxy;

by attending the special meeting and voting in person (your attendance at the special meeting will not, by itself, revoke your proxy; you must vote in person at the special meeting);

by submitting a later-dated proxy; or

by submitting a new proxy by telephone or the Internet, provided that the new proxy is received by 5:00 p.m., Eastern Time, on April 19, 2011.

Please note that if you hold your shares in street name through a broker, bank or other nominee and you have instructed your broker, bank or other nominee to vote your shares, the above-described options for changing your vote do not apply, and instead you must follow the instructions received from your broker, bank or other nominee to change your vote.

Solicitation of Proxies

The Company will pay the cost of this proxy solicitation. In addition to soliciting proxies by mail, directors, officers and employees of the Company may solicit proxies personally and by telephone, facsimile or other electronic means of communication. These persons will not receive additional or special compensation for such solicitation services. The Company will, upon request, reimburse brokers, banks and other nominees for their expenses in sending proxy materials to their customers who are beneficial owners and obtaining their voting instructions. The Company has retained D.F. King & Co., Inc. to assist it in the solicitation of proxies for the special meeting and will pay D.F. King & Co., Inc. a fee of approximately $8,500, plus reimbursement for reasonable administrative and out-of-pocket expenses incurred in connection with the proxy solicitation.

Stockholder List

A list of our stockholders entitled to vote at the special meeting will be available for examination by any Company stockholder at the special meeting. For ten (10) days prior to the special meeting, this stockholder list will be available for inspection during ordinary business hours at our principal place of business located at 400 Minuteman Road, Andover, Massachusetts 01810.

THE MERGER

Background of the Merger

As part of their ongoing activities, our board of directors and senior management have regularly discussed our long-term business strategies and opportunities, including continued operations as an independent public company and the possibility of engaging in strategic transactions, each with a view toward maximizing stockholder value. During 2007 and 2008, the Company undertook a process to consider strategic alternatives, including a potential sale of the Company. This process ultimately did not result in an attractive offer for a sale of the Company. However, Bidder A, a large strategic acquirer which had engaged with the Company during 2007 and 2008, expressed a continuing interest in acquiring the Company during the summer of 2008. Because there was a possibility that a potential transaction with Bidder A might involve a roll-over of shares held by Atlantic, the Company s largest stockholder and an entity in which Arthur Becker, our then-chief executive officer, and Andrew Ruhan, our chairman of the board of directors, directly or indirectly, have an ownership interest, into the surviving entity, our board of directors decided to form a special committee of independent directors, which we refer to as the predecessor committee, to review, evaluate and negotiate any proposal by Bidder A. Discussions with Bidder A ultimately did not advance beyond preliminary negotiations at that time, and our board of directors continued to focus on operating the Company as a standalone entity, in the long-term interests of our stockholders.

Throughout 2009, members of Company management and Bidder A remained in contact and, during early 2010, Bidder A again expressed interest in acquiring the Company. Arthur Becker, our then-chief executive officer, engaged in discussions with Bidder A and provided information regarding the Company in connection with the consideration of a potential transaction. Those discussions continued until May of 2010 and ceased following preliminary valuation discussions between Mr. Becker and Bidder A.

On July 12, 2010, Atlantic sent a letter to our board of directors making an unsolicited proposal to acquire by merger all of the outstanding shares of our common stock at a cash purchase price of $3.05 per share. Atlantic s proposal was conditioned on its ability to obtain the necessary financing, its satisfactory completion of a confirmatory due diligence review, and the execution of a definitive merger agreement on mutually acceptable and customary terms. As reflected in the amendment to its Schedule 13D, dated July 12, 2010, Atlantic beneficially owned 36.7% of our common stock as of that date.

In its July 12 letter to our board of directors, Atlantic noted that it expected that our board of directors would form a special committee to review and consider its proposal. On July 13, 2010, our board of directors met to consider whether to establish a special committee. At that meeting, the board of directors determined that it was advisable and in the best interests of the Company and its stockholders to form a special committee, consisting of directors who were not and are not directly or indirectly affiliated with Atlantic and who were not and are not members of our management, for the purpose of considering Atlantic s proposal. Accordingly, our board of directors appointed James Dennedy, Thomas Evans and Larry Schwartz (who also constitute the members of the Audit Committee and the Governance, Nominating and Compensation Committee of our board of directors) to the special committee. The special committee had and exercised all the powers and authority of the board of directors to review, evaluate and negotiate the terms and conditions of the Atlantic proposal or any alternative proposal, to determine whether the Atlantic proposal or any alternative proposal is fair to, and in the best interests of, the Company and all of our stockholders (other than, in the case of the Atlantic proposal, the Company stockholders affiliated with Atlantic), and to recommend to the full board of directors what action, if any, should be taken by our board of directors with respect to Atlantic s proposal or any alternative proposal. Our board of directors also delegated to the special committee the full power and authority of the board of directors to act on behalf of the Company in connection with any matters

related to its consideration of the Atlantic proposal or any alternative proposal, including the ability to authorize and enter into contracts of any nature, commence litigation and to authorize defensive measures (such as the adoption of a stockholder rights plan) on behalf of the Company. Finally, our board of directors resolved not to recommend the Atlantic proposal or any alternative proposal for approval by our stockholders without a prior favorable recommendation by the special committee.

On July 13, 2010, the special committee met to hold its initial meeting. The special committee approved the retention of Richards, Layton & Finger, P.A. (which we refer to in this proxy statement as RLF) as its legal counsel. RLF had been retained as counsel to the predecessor committee of our board of directors that was formed in 2008 and that was composed of the same members as the special committee. The special committee determined that RLF was independent of Atlantic, the Company and our management. At the meeting, RLF discussed the role of the special committee and its fiduciary duties in considering the Atlantic proposal and alternatives thereto. The special committee discussed the terms of Atlantic s proposal. The special committee members considered the price and various contingencies (including financing contingencies) of the offer and determined that it needed to seek more information regarding Atlantic and Atlantic s proposal before deciding how to proceed with respect to the offer.

On July 15, 2010, our board of directors held a meeting at which all of the directors, other than Mr. Ruhan, were present. At this meeting, members of the special committee asked Mr. Becker various questions relating to Atlantic and Atlantic s proposal, including with respect to Atlantic s ability to finance its proposal.

Following the board meeting, the special committee convened a separate meeting to discuss Atlantic s proposal and to consider process issues. At this meeting, RLF provided the special committee members with advice regarding their fiduciary duties under Delaware law. The special committee also discussed potential conflicts of interest arising from Atlantic s offer. The special committee discussed Mr. Becker s employment status with the Company and the need for a management communications policy to set forth lines of reporting directly to the special committee by members of senior management (other than Mr. Becker), to instruct senior management not to discuss matters related to Atlantic s proposal with Mr. Becker, and to clarify that the special committee would be responsible for all matters relating to Atlantic s proposal and that Mr. Becker should not be involved in communications on behalf of the Company relating to Atlantic s proposal.

The special committee also discussed the retention of an independent financial advisor to assist in its evaluation of Atlantic s proposal and alternatives thereto. The special committee noted that Lane, Berry & Co. International, LLC (which we refer to in this proxy statement as Lane Berry) had been retained by the predecessor committee in 2008 as its independent financial advisor. Since that time, Lane Berry had been acquired by Raymond James. The special committee discussed contacting Raymond James as well as other potential independent financial advisors.

Between July 15 and July 20, 2010, the special committee, with the assistance of its legal counsel, had discussions with Raymond James and one other financial advisor as to their qualifications and the terms on which they would be willing to act as the special committee s independent financial advisor.

At a meeting held on July 20, 2010, the special committee authorized the engagement of Raymond James. The special committee selected Raymond James based on its experience in rendering advice in strategic review processes, the performance by certain of the principals in Raymond James (as members of Lane Berry) on behalf of the predecessor committee in 2008 as well as their familiarity with the Company and the industry in which the Company operates. The special committee determined that Raymond James was independent of Atlantic, the Company and our management. At the July 20, 2010 meeting, the special committee also discussed certain transactions under consideration by the Company that were outside of its ordinary course of business, including the proposed sale of its colocation facilities in Dallas and Chicago. The special committee met with management to discuss these transactions, instructing management that, due to Atlantic s pending offer, Mr. Becker should not be involved in the negotiations. The special committee also requested that management advise the Company s financial advisors for those transactions not to contact or take direction from Mr. Becker in respect thereof.

On July 22 and 25, 2010, the special committee met to discuss and finalize terms of the retention of Raymond James, to receive updates and discuss with management (other than Mr. Becker) pending non-ordinary course transactions, such as the proposed sales of its colocation facilities in Dallas and Chicago and to discuss and receive updates with

respect to Atlantic s proposal and related matters.

Table of Contents

On August 5, 2010, the special committee met with its legal and financial advisors to continue its review of the Atlantic proposal and to obtain advice from Raymond James regarding its preliminary valuation of the Company and other issues relating to Atlantic s proposal and potential alternatives. At this meeting, Raymond James discussed with the special committee the likely potential buyers of the Company if the special committee decided to engage in a broad-based strategic review process and summarized inquiries already received by Raymond James, the Company or the special committee from third parties interested in the Company, each of whom had been or were subsequently contacted by Raymond James. The special committee discussed the possibility of soliciting indications of interest from potential strategic and financial buyers and whether it would be an opportune time to attempt to sell the Company. The special committee noted Bidder A s interest in potentially acquiring the Company in 2008 and 2010 and discussed whether it would be appropriate at this time for Raymond James to contact Bidder A s financial advisor to engage in preliminary discussions regarding a potential acquisition of the Company. The special committee discussed Raymond James s preliminary valuation materials and determined that Atlantic s proposal to acquire the Company at a $3.05 per share valuation was inadequate. Accordingly, the special committee rejected the offer and instructed Raymond James to communicate its decision to Atlantic. On August 6, 2010, the Company, at the direction of the special committee, issued a press release announcing the rejection of Atlantic s offer. The press release indicated that the special committee would continue to consider strategic alternatives available to the Company, including remaining as a stand-alone company.

After Atlantic s $3.05 bid was rejected by the special committee, Atlantic continued to participate in the process as one of the lettered bidders identified below.

On August 10, 2010, the special committee met to discuss the proposed sale of the Company s colocation facilities in Chicago and Dallas, the Company s business and prospects and the Company s management team.

On August 15, 2010, Arthur Becker resigned as chief executive officer of the Company. R. Brooks Borcherding, the Company s president, succeeded Mr. Becker as the Company s chief executive officer. Mr. Becker remains a director of the Company.

At a meeting held on August 19, 2010, Raymond James advised the special committee that four potential financial buyers and three potential strategic buyers, in addition to Bidder A, had contacted Raymond James, the Company or the special committee to express interest in an acquisition of the Company. In light of these indications of interest, the special committee discussed whether to engage in a formal strategic review process. RLF advised the special committee members of their fiduciary duties in connection with the consideration of the Company s strategic alternatives. The special committee members discussed the state of the Company s business, including its capital position as well as its ability to pursue new technologies and remain competitive in the marketplace. The special committee discussed the structure that a strategic review process would take, the likelihood that the process would yield the highest value reasonably available to the stockholders, and the potential risks associated with commencing the process.

On August 24, 2010, the special committee met with its legal and financial advisors to determine whether to commence the strategic review process and, if so, how to structure the process. With the advice of Raymond James, the special committee determined that it would be appropriate to undertake a competitive strategic review process and direct management to work with Raymond James to create a confidential information memorandum to be provided to potential bidders and to begin populating an electronic data room for due diligence purposes. Raymond James next advised the special committee of the potential financial and strategic buyers that it proposed to contact on behalf of the special committee. The special committee reviewed the list prepared by Raymond James and, with the advice of Raymond James, identified 14 strategic and 11 financial buyers that it determined might be interested in participating in the strategic review process and authorized Raymond James to contact such parties.

On August 25, 2010, Raymond James had a discussion with Deutsche Bank, TWC s financial advisor, with respect to TWC s interest in a potential acquisition of the Company.

On August 26, 2010, the special committee received an unsolicited preliminary indication of interest from Bidder B, one of the foregoing financial buyers, in which it proposed to acquire the Company at a valuation

between $3.10 to $3.40 per share, subject to a 30-day exclusivity agreement and financing contingencies. At a meeting held on August 27, 2010, the special committee determined that the valuation reflected in Bidder B s indication of interest was low relative to the value of the Company reflected in the preliminary valuation materials prepared by Raymond James and in the special committee s own judgment. The special committee determined that Bidder B s indication of interest was not sufficiently attractive to justify entering into an exclusivity arrangement that was then being required by Bidder B and directed Raymond James to advise Bidder B that the special committee was not in a position to explore the indication of interest further but that Bidder B would be invited to participate in the strategic review process.

From late August 2010 until early October 2010, the special committee entered into non-disclosure agreements with nine of the parties initially invited to participate in the strategic review process. During this period of time, additional parties were contacted by Raymond James on behalf of the special committee and also certain parties contacted Raymond James expressing interest in the Company. As a result of such conversations, the special committee contacted or engaged in discussions with a total of 14 strategic and 14 financial buyers by the end of October 2010.

On September 3, 2010, the special committee met with its legal and financial advisors to receive an update on the strategic review process. Raymond James reported that it had advised Bidder B that it would be invited to participate in the strategic review process.

On September 12, 2010, the special committee met with its legal and financial advisors to review the Company s strategic review process. Raymond James advised the special committee that the Company was continuing to populate the electronic data room with due diligence materials. The special committee discussed the status of the non-disclosure agreements with potential bidders.

Beginning September 16, 2010, Raymond James began coordinating due diligence among interested parties and the Company, including requests for information relating to the Company s data room and, in late September 2010, facilitated a preliminary meeting between certain members of management of the Company and Bidder A, at which Raymond James was in attendance, which meeting was held on September 30, 2010.

On September 19, 2010, the special committee, together with its legal and financial advisors, met with members of management and the Company s outside counsel to discuss various issues relating to a potential transaction, including consents that would be required under the Company s existing credit agreement and the impact of the Company s Series A Convertible Preferred Stock on the proposed structure of the transaction. The special committee also separately received an update on the strategic review process, including the status and terms of non-disclosure agreements and levels of interest and activity of potential bidders.

On September 21, 2010, TWC entered into a non-disclosure agreement with the Company.

On September 30, 2010, the special committee held a meeting at which members of senior management were invited to provide an update on their meeting with Bidder A, which had taken place earlier that day. The special committee also met separately with its legal and financial advisors to discuss the strategic review process, timing for indications of interest and the status of nondisclosure agreements.

On October 6, 2010, the special committee held a meeting to discuss the status of discussions with the various bidders. The special committee approved the bid procedures letter that would be sent to the potential bidders, which letter would advise them of the October 19, 2010 deadline for submitting preliminary indications of interest. The special committee also discussed the terms of a proposed draft merger agreement to be circulated to potential bidders.

On October 8, 2010, the special committee received an indication of interest from Bidder A providing for the acquisition of all of the Company s common stock for cash at a price per share of $3.50. Bidder A s indication of interest was not made contingent on financing, but requested an eight-week exclusivity period. At a meeting of the special committee held on October 8, 2010, Raymond James advised the special committee that Bidder A was not likely to withdraw from the strategic review process if the special committee declined to respond to Bidder A s indication of interest prior to the deadline for indications of interest on October 19,

2010. After receiving advice from its legal and financial advisors, the special committee determined that it should not enter into an exclusivity arrangement but should instead proceed with the strategic review process.

On October 8, 2010, Atlantic amended its Schedule 13D to disclose that it had entered into a non-disclosure agreement with the Company on October 6, 2010 in connection with the consideration by Atlantic of a potential transaction with the Company.

On October 14, 2010, Bidder D, a strategic buyer, contacted Raymond James to express interest in joining the strategic review process. Bidder D executed a non-disclosure agreement on October 15, 2010.

On October 19, 2010, the special committee met to discuss the status of the strategic review process in contemplation of receiving indication of interests.

By the end of day on October 19, 2010, the special committee had received preliminary indications of interest from six of the bidders initially invited into the strategic review process. Bidder B, a financial buyer, submitted an indication of interest at $3.40 per share; Bidder A, a large strategic buyer, submitted an indication of interest at $3.50 per share; Bidder C, a financial buyer, submitted an indication of interest at $3.75 per share; Bidder E, a large strategic buyer, submitted an indication of interest at $4.00 per share; and TWC submitted an indication of interest at $4.50 per share.

On October 20, 2010, Atlantic amended its Schedule 13D to disclose that on October 19, 2010 it had made a revised offer to acquire the Company. Also on October 20, 2010, Bidder D, a strategic buyer, submitted an indication of interest at a range of $3.75 to $4.25 per share.

On October 21, 2010, the special committee met to discuss with its legal and financial advisors the preliminary indications of interest submitted by the potential bidders. Raymond James advised the special committee that Bidder B s indication of interest was not compelling, given its low valuation and its lack of committed financing. Raymond James noted that Bidder C s indication of interest was also not compelling, and that it did not include any indication as to sources of equity or debt financing. Raymond James also reported that it had advised Bidder A s financial advisor that Bidder A s indication was not competitive and would need to be higher if Bidder A intended to continue in the process. Raymond James noted that Bidder D s indication did not include a financing commitment and provided no firm indication that Bidder D had sufficient funds to consummate a transaction within its valuation range.

Raymond James reported that Bidder E s indication was not contingent upon financing and that Bidder E, as a large strategic buyer, had ample cash on its balance sheet to consummate the transaction. Raymond James also reported that TWC s indication of interest was not contingent on financing and that, of the several bidders, TWC had conducted the most extensive due diligence on the Company, but noted that TWC had requested an exclusivity agreement.

Following the discussion of the initial indications of interest, Raymond James reviewed with the special committee its preliminary valuation analysis of the Company and the methodology and data used to perform that analysis. The special committee then again discussed the indications of interest. The special committee determined that there was sufficient interest by potential bidders to justify continuing the strategic review process. After consultation with its advisors, the special committee determined that it would not be advisable to grant TWC or any other potential bidder exclusivity at that time.

The special committee then discussed the next stages of the strategic review process. Based on the advice of Raymond James, the special committee determined that TWC and Bidder E should be invited to continue due diligence and to schedule management presentations in light of the strength of their relative indications of interest, including their pricing terms and the lack of a financing contingency. The special committee directed Raymond James to contact

Bidder D s representatives to confirm whether Bidder D would have the ability to consummate a transaction at or above the high end of its indication of interest. Depending on that response, the special committee would determine whether to allow Bidder D to continue in the strategic review process. The special committee directed Raymond James to advise Bidder A, Bidder B and Bidder C, that their bids were not competitive and that they would not be invited to continue in the strategic review process absent confirmation of their ability to improve their valuations. Although the special committee had not established

formal guidelines for determining whether to allow parties to move forward in the strategic review process, its decision was based on the indicated valuations, the special committee s determination (with input from its advisors) regarding the experience and reputation of the interested parties and the financial strength and ability of such parties to consummate an acquisition of the Company at their proposed valuations.

The special committee then discussed the draft merger agreement that would be furnished to each bidder invited to proceed in the strategic review process. RLF provided an overview of the material terms of the draft merger agreement.

On October 24, 2010, the special committee met to discuss matters relating to the indications of interest at the lower end of the valuation ranges submitted by the potential buyers. In conversations following the October 19, 2010 meeting of the special committee, both Bidder A and Bidder C expressed a strong desire to remain in the process and the ability to increase their bids. Bidder C also indicated that it was in the process of securing financing. Based upon these assurances, the special committee allowed both Bidder A and Bidder C to remain in the process. Bidder B did not indicate an ability to increase its offer price and, as a result, did not continue in the process.

On November 1, 2010, Bidder F, a strategic buyer, contacted Raymond James to express interest in engaging in a transaction with the Company and requested that it be admitted to the Company s strategic review process.

At a meeting on November 3, 2010, Raymond James provided the special committee with an update on the process. Raymond James noted that TWC, Bidder A, and Bidder E had been active in the data room, and that TWC and Bidder E had requested additional due diligence materials. Based upon conversations between Raymond James and Bidder C, the special committee then discussed the possibility of one of Bidder G and Bidder H, both potential financial buyers, acting as a source of equity financing in connection with a bid by Bidder C. The special committee then discussed whether to admit Bidder F to the strategic review process. Raymond James advised that Bidder F s financial advisor indicated that Bidder F would be willing to pay a significant premium for the Company and that it had the capacity to enter into a transaction. Raymond James further commented on Bidder F s cash position and its need to obtain additional financing. With input from its legal and financial advisors, the special committee decided to permit Bidder F to enter the strategic review process and directed its legal advisors to negotiate a non-disclosure agreement with Bidder F so that it could move quickly to obtain access to the data room and submit a preliminary indication of interest.

From early November 2010 until January 2011, the various potential bidders engaged in detailed due diligence with respect to the Company under the supervision of the special committee and Raymond James.

On November 4, 2010, the special committee met and received an update with respect to potential bidders.

On November 5, 2010, the Company entered into a non-disclosure agreement with Bidder F and provided Bidder F access to the Company s electronic data room. Between November 9, 2010 and November 17, 2010, management made presentations to each of Bidder A, Bidder C (with Bidder G at one presentation and with Bidder H at a second presentation), Bidder E and TWC. Raymond James was present at each of these meetings. By early November 2010, Bidder D had withdrawn from the strategic review process.

On November 18, 2010, the special committee met to receive an update with respect to the strategic review process, to consider and approve the form of merger agreement to be sent to potential bidders, to discuss the recent management presentations with potential bidders and to approve the final bid deadline date.

On November 19, 2010, Raymond James sent a bid procedures letter and a form of draft merger agreement to each of TWC, Bidder A, Bidder C and Bidder E. The bid procedures letter set December 15, 2010 as the date by which final

bids would be due.

On November 20, 2010, Bidder F submitted an indication of interest to acquire the Company based upon an enterprise value of $250 million, which equated to approximately $4.17 per share of common stock. Based upon this indication of interest, the special committee determined to allow Bidder F to continue in the strategic

review process. On December 1, 2010, Bidder F received a presentation from the Company s management, which Raymond James attended.

On November 29, 2010, the special committee met and discussed the status of due diligence related to the strategic review process. Following discussion, and based upon the advice of Raymond James, the special committee determined that it would likely be necessary to delay the bid deadline date in order to ensure that the data room was fully populated and that all potential bidders would have an adequate opportunity to review the materials contained therein. By late November 2010, Bidder C had selected Bidder H to be its source of equity financing in connection with a potential bid for the Company and Bidder G did not continue in the strategic review process.

On December 14, 2010, the special committee met to discuss the status of the Company s strategic review process. Raymond James advised the special committee with respect to the Company s response to the due diligence requests. Raymond James then provided an update on Bidder F, which was continuing to progress through the data room and had requested additional meetings with the Company s management. The special committee also discussed the level of interest and activity among other potential bidders. Based on the advice of Raymond James, the special committee set a new deadline for bids as of January 13, 2011.

On January 3, 2011, the special committee met to receive an update with respect to the strategic review process and discuss the timing of the submission of bids to the special committee.

On January 12, 2011, Raymond James was advised that neither Bidder A nor Bidder F would be making a final bid for the Company. Bidder A indicated that it could not increase its bid from its indication of interest ($3.50) by a sufficient amount to be competitive with other bidders based upon guidance received from Raymond James. Bidder F reported that its failure to bid was due to its inability to secure committed financing.

On January 13, 2011, the special committee met to discuss developments in the strategic review process. Raymond James further advised that Bidder H indicated that it would submit its own bid and that such bid would not be made jointly with or as an equity sponsor of Bidder C. Raymond James also advised the special committee that it had been contacted by representatives of Bidder I, a strategic buyer, which indicated that it would be interested in participating in the strategic review process. After discussion with its advisors, the special committee determined that Bidder I be invited to participate in the strategic review process and to submit a prompt indication of interest in order to determine if further conversations would be productive. Upon execution of a non-disclosure agreement, the special committee directed Raymond James to advise Bidder I of the status of the strategic review process and the need for Bidder I to act quickly if it intended to make a competitive bid for the Company. Raymond James updated the special committee with respect to its communications with the bidders and recommended a bid deadline for noon on January 14, 2011. The special committee adopted that recommendation.

On January 14, 2011, the special committee met to discuss the strategic review process. Raymond James advised that Bidder I had entered into a non-disclosure agreement with the Company, had been provided access to the Company s data room and was moving forward with its preliminary due diligence. Raymond James advised Bidder I of the need to move quickly to submit an indication of interest in light of the current status of the strategic review process. The special committee determined to re-assess the relative strength of each bid following receipt of an indication of interest from Bidder I.

Raymond James made a valuation presentation to the special committee and advised on the proposals that had been submitted in the process. Bidder E submitted a bid letter and a draft merger agreement, in which it made an all cash, fully financed bid of $4.40 per share. Bidder E s bid was conditioned upon the execution of stockholder support agreements by certain stockholders of the Company (including Atlantic, Arthur Becker and netASPx Holdings, Inc.) and contemplated a warrant holder agreement with the holders of the Company s warrants. TWC submitted a bid letter

and a draft merger agreement (along with a form of voting agreement and warrant holders agreement), in which it made an all cash, fully financed bid of $4.75 per share. Among other terms, TWC s bid letter included a termination fee of 4% of the merger consideration plus reimbursement of expenses of up to $3 million. TWC s bid also contemplated the execution of voting agreements by Atlantic,

Arthur Becker and netASPx Holdings, Inc. and a warrant holder agreement with the holder of the Company s warrants. Bidder H submitted a bid letter, a debt commitment letter, and a draft merger agreement, with a bid of $4.05 in cash, subject to debt financing. Bidder C confirmed that it would not be submitting a bid. Raymond James recommended that the special committee continue to engage with TWC and Bidder E. The special committee discussed the bids received and any relevant assumptions and contingencies with respect to such bids, if any. The special committee also discussed the levels of valuation received and the prospects for the Company as a stand-alone entity and determined that it was advisable to proceed with the strategic review process. The special committee directed Raymond James to contact TWC, Bidder E and Bidder H to seek higher bids from each such party and to provide pricing guidance that bids should be at least $5.00 per share.

On January 15, 2011, the special committee met to discuss the offers received from TWC, Bidder E and Bidder H. The special committee also discussed the initial interest expressed by Bidder I and its desire to see an indication of interest from Bidder I in order to further assess valuation relative to existing bidders.

On January 17, 2011, Bidder I submitted an indication of interest to acquire the Company at a price per share of common stock in the range of $4.80 to $5.30. The indication of interest stated that the consideration would be payable in cash, but could be a mix of cash and stock. Bidder I s indication provided that the acquisition would be financed with cash and new debt financing (which it had yet to obtain), and it was subject to completion of due diligence as well as the negotiation and completion of definitive documentation.

On January 17, 2011, the special committee met with Raymond James to receive an update on Raymond James s discussions with Bidder E, Bidder H and TWC, and to discuss Bidder I s indication of interest. Bidder H advised Raymond James that it could potentially increase its valuation to $4.50 per share of common stock, but that it would not be in a position to submit a bid much above $4.50 per share. In light of this, Bidder H did not continue in the strategic review process after January 17, 2011. Raymond James also advised the special committee that Bidder E had increased its bid from $4.40 to $4.65 per share of common stock based upon conversations with Raymond James. Upon being informed that its valuation was below those offered by other bidders, Bidder E indicated that it could potentially increase its bid, subject to further internal approvals, and requested that the special committee not approve another transaction without receiving additional input from Bidder E. Raymond James advised the special committee that TWC had indicated that it would not increase its bid until it had an opportunity to engage in negotiations over definitive transaction documents and to conduct final due diligence.

The special committee then discussed Bidder I s indication of interest. Raymond James noted that, unlike the bids received from TWC and Bidder E, Bidder I s indication of interest was subject to financing. Raymond James further advised that, based on Bidder I s size, leverage and available cash, as well as its financing contingency, its offer introduced a greater degree of uncertainty. The special committee discussed Bidder I s indication of interest and determined that, while it would allow Bidder I to continue to proceed in the strategic review process, it would not alter the timing of the process at this time. The special committee authorized Raymond James to offer to provide Bidder I with full diligence materials, but to highlight the importance of Bidder I moving quickly, adding certainty to any bid and achieving greater precision around its broad pricing range. The special committee then discussed with RLF the material terms of the draft merger agreement that TWC had submitted and instructed RLF to work with BRL Law Group LLC (which we refer to in this proxy statement as BRL), the Company s counsel, to send a revised draft merger agreement to TWC and its counsel, Paul, Weiss, Rifkind, Wharton & Garrison LLP (which we refer to in this proxy statement as PW).

On January 18, 2011, Bidder E increased its bid price from $4.65 to $5.00 per share.

On January 19, 2011, the special committee met with representatives of Atlantic to determine whether Atlantic would be willing to enter into a voting agreement and support a transaction at the then-proposed valuations (such voting

agreement being a condition of both the TWC and Bidder E bids). Atlantic neither formally endorsed a transaction at the then current high bid ($5.00) nor rejected entering into a voting agreement to support a transaction at such valuation. At a special committee meeting on January 19, 2011, the special committee discussed the meeting with Atlantic and the revisions to the merger agreement sent to TWC. The special committee also discussed the terms of the revised draft merger agreement submitted by Bidder E and instructed RLF to work with BRL to send a revised version of the merger agreement to Bidder E

later that evening. That afternoon, RLF and BRL conducted a conference call with PW to review the issues and open points in the draft merger agreement.

On January 21, 2011, the special committee met with RLF to review the material terms of the draft merger agreements submitted by Bidder E and TWC and the status of the negotiations with those bidders. The special committee also discussed the timing of the process. Raymond James provided an update with respect to Bidder I, which had contacted Raymond James on the evening of January 20, 2010 to express an interest in continuing its due diligence and requested a conference call with the Company s management. Bidder I advised Raymond James that, subject to its continued review, it may be able to reach the high end of its indicated valuation range ($5.30). The special committee directed Raymond James to facilitate and attend the conference call between the Company s management and Bidder I, which was subsequently scheduled for January 24, 2011. RLF and BRL also conducted a conference call with PW to review the issues and open points in the draft merger agreement submitted by TWC.

On January 26, 2011, RLF reviewed with the special committee the state of the third-party consents that would be required to proceed to the signing of a definitive merger agreement. RLF also provided the special committee an update on the status of the negotiations over the material terms of the draft merger agreements with TWC, which had been further discussed in a conference call with PW, and Bidder E. Raymond James advised that Bidder I, on the evening of January 25, 2011, had contacted Raymond James to indicate its continuing interest in the Company. Bidder I indicated that it would need approximately two and one-half weeks to complete its diligence and obtain financing assuming full engagement by the Company and its advisors and, after such time, it would be in a position to submit a final bid, which it indicated could be at the top end of its range ($5.30). However, Bidder I indicated that it was unwilling to proceed with these efforts unless the Company was prepared to provide assurance that Bidder I would be able to complete its full diligence and financing prior to the Company accepting any other bid. After discussion with its advisors, the special committee determined that, while it would allow Bidder I the opportunity to continue in the process, it could not provide the assurances that Bidder I was seeking and would not delay the strategic review process. In reaching this determination, the special committee considered the uncertainty surrounding Bidder I s proposal, including lack of financing, uncertainty as to pricing, lack of diligence completed, and concern as to whether more time would be needed by Bidder I. The special committee also took into account the quality of TWC and Bidder E as existing bidders, both of whom had completed their diligence over a period of months and had no financing contingencies, and the possibility that one or both of such bidders might leave the process if a new and significant delay were imposed. The special committee directed Raymond James to request best and final bids from TWC and Bidder E by noon on January 28, 2011.

In the early afternoon of January 28, 2011, Raymond James contacted Bidder E, which communicated that it would increase its per share offer price to $5.05. Also that afternoon, TWC sent a letter to Raymond James in which it submitted a revised offer to acquire the Company for an all cash purchase price of $5.25 per share of the Company s common stock. In its letter, TWC indicated that it would expect that the merger agreement, the disclosure schedules and the other ancillary documents (including voting agreements and the warrant holders agreement) to be completed in time for a joint public announcement of a transaction before the open of business on January 31, 2011. The special committee met to discuss TWC s revised proposal. At this time, the special committee directed Raymond James to contact Bidder E to determine whether Bidder E would be in a position to make a superior offer. Raymond James also confirmed that Bidder I would not be continuing in the strategic review process.

The special committee met again in the late afternoon of January 28, 2011. At this meeting, the special committee discussed the revised bids submitted by each of TWC and Bidder E. Raymond James advised that Bidder E had declined to improve its offer and had stated that if the special committee had a better offer that it should pursue such offer. The special committee discussed with RLF the status of the negotiations over the draft merger agreement with TWC. RLF advised that the negotiations over the merger agreement with TWC were nearing completion, subject to the resolution of certain issues, including those relating to the conditions to closing, the termination fee and the no

solicitation provisions of the agreement. The special committee advised Raymond James to contact TWC s representatives to determine whether TWC would be willing to increase its offer.

In the early evening of January 28, 2011, Raymond James contacted TWC s financial advisor to discuss TWC s offer. TWC declined to improve its offer at that time. The special committee indicated that in order to continue negotiations to achieve a transaction that TWC needed to raise its bid to above $5.50 at which point the special committee would continue to negotiate towards definitive documentation relating to a transaction.

During the afternoon of January 29, 2011 and the morning of January 30, 2011, Raymond James and representatives of the special committee had discussions with representatives of Atlantic with respect to TWC s bid price and Atlantic s willingness to enter into a voting agreement. Following such conversations and conversations with members of the special committee, Raymond James reported to TWC that Atlantic would not be willing to support a transaction at $5.25 per share, but would be willing to support a transaction at $5.75 per share. Following additional negotiations, TWC s financial advisor contacted Raymond James to report that TWC would increase its bid to $5.50 per share of common stock, that this was its best and final offer and that its offer was contingent upon prompt finalization of definitive agreements. After being advised of TWC s revised bid, representatives of Atlantic indicated to Raymond James and representatives of the special committee that Atlantic would be fully supportive of a transaction at $5.50 per share.

During the early evening of January 30, 2011, the special committee met and received an update from Raymond James with respect to the negotiations with TWC with respect to valuation and Atlantic s support for such valuation. At this meeting, RLF reviewed with the special committee the material open items in the draft merger agreement with TWC. The special committee directed RLF to continue negotiating with TWC over these and other terms, which RLF addressed with PW in a conference call. Among other terms, following negotiations, the special committee obtained agreement from TWC to a termination fee which totaled approximately 2.83% of the merger consideration plus reimbursement of up to $1.5 million of expenses.

On February 1, 2011, the special committee met to discuss again the draft of the merger agreement with TWC. Representatives of Raymond James and RLF were present at this meeting, and representatives of BRL were present for the portions of the meeting relating to the terms of the merger agreement. Representatives of RLF and BRL reviewed in detail the material terms of the merger agreement. A copy of the proposed revised merger agreement (and a marked copy of the merger agreement reflecting the changes made to the agreement since the special committee s last review of the merger agreement) was sent to the directors prior to the meeting. Following this discussion, representatives of BRL left the meeting, and representatives of RLF reviewed the special committee s fiduciary duties in connection with the proposed transaction with TWC. Representatives of Raymond James then reviewed with the special committee its financial analysis of the merger consideration and rendered its oral opinion, which was subsequently confirmed by delivery of a written opinion, dated February 1, 2011, that, as of that date, and based upon and subject to the various assumptions made, matters considered and qualifications and limitations on the scope of review undertaken as set forth in such opinion, the $5.50 per share expected to be received by the holders of the Company s common stock at the time the opinion was rendered was fair from a financial point of view to the holders of the Company s common stock. The special committee then discussed a variety of factors relating to its consideration of the proposed transaction with TWC.

After discussion, the special committee unanimously (i) determined that the proposed merger agreement with TWC, and the transactions contemplated thereby (including, without limitation, the merger) were advisable, fair to, and in the best interests of the Company and its stockholders; and (ii) recommended that our board of directors (A) approve and declare advisable the merger agreement and the transactions contemplated thereby, (B) declare that it is in the best interests of the Company and our stockholders that we enter into the merger agreement and consummate the transactions contemplated thereby on the terms and subject to the conditions set forth in the merger agreement, (C) submit the merger agreement to our stockholders for adoption, and (D) recommend that our stockholders adopt the merger agreement and the transactions contemplated thereby.

Following the meeting of the special committee, our board of directors met to consider the proposed transaction with TWC. Representatives of RLF, BRL and Raymond James were present at the meeting. Representatives of RLF and BRL reviewed with the board of directors the material terms of the merger agreement. A copy of the proposed merger agreement was sent to the board of directors prior to the meeting.

RLF and BRL also discussed with the board of directors its fiduciary duties in connection with its consideration of the proposed transaction. Raymond James then reviewed with the board of directors its financial analysis of the merger consideration and advised the board of directors that it had rendered its oral opinion to the special committee, to be subsequently confirmed in writing, that, as of February 1, 2011, and based upon and subject to the various assumptions made, matters considered and qualifications and limitations on the scope of review undertaken as set forth in such opinion, the $5.50 per share expected to be received by the holders of the Company s common stock at the time the opinion was rendered was fair from a financial point of view to the holders of the Company s common stock (other than the Company, TWC and the Merger Sub and their respective subsidiaries). The board of directors then discussed various factors relating to its decision whether to approve the merger agreement with TWC and recommend that our stockholders vote in favor of the adoption of the merger agreement.

Following discussion, the board of directors unanimously (i) determined that the merger agreement and the transaction contemplated thereby were advisable and in the best interests of the Company and its stockholders, (ii) authorized, approved and adopted the form, terms and provisions of the merger agreement and the transactions contemplated thereby, and authorized, empowered and directed the officers to execute and deliver the merger agreement on behalf of the Company, (iii) directed that the merger agreement be submitted to our stockholders at a meeting of stockholders, (iv) recommended that our stockholders adopt the merger agreement, and (v) declared that it is in the best interests of the Company and our stockholders that we enter into the merger agreement and consummate the transactions contemplated thereby on the terms and subject to the conditions set forth in the merger agreement.

On February 1, 2011, following the close of trading on the NASDAQ and the NYSE, the parties executed a final version of the merger agreement and the Company and TWC issued a joint press release announcing the transaction.

Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement

The Special Committee

After being apprised of Atlantic s public proposal to acquire the Company on July 12, 2010, the board of directors determined that it was advisable and in the best interests of the Company and its stockholders to form a special committee consisting only of independent directors for the purpose of responding to Atlantic s public proposal and evaluating strategic alternatives available to the Company. Our board of directors appointed each of James Dennedy, Thomas Evans and Larry Schwartz as members of the special committee. Our board of directors delegated full power and authority to the special committee in connection with its evaluation of strategic alternatives, including the full power and authority to (i) review and evaluate the terms and conditions, and determine the advisability of Atlantic s public proposal and any alternative thereto, (ii) negotiate with Atlantic or any other party the special committee deems appropriate with respect to the terms and conditions of Atlantic s public proposal or any alternative thereto and, if the special committee deems appropriate, but subject to the limitations of applicable law, approve the execution and delivery of documents setting forth Atlantic s proposal or any alternative transaction, (iii) determine whether Atlantic s proposal or any alternative thereto negotiated by the special committee is fair to, and in the best interests of, the Company and its stockholders and (iv) recommend to our board of directors that the board of directors take actions with respect to Atlantic s proposal or other alternatives thereto. In connection with the formation of the special committee, our board of directors resolved that it would not approve or recommend to the Company s stockholders any potential sale of the Company without the favorable recommendation of the special committee.

The special committee, at a meeting held on February 1, 2011, unanimously determined that the merger agreement, the merger and the other transactions contemplated by the merger agreement were advisable and in the best interests of the Company and its stockholders, and recommended that the board of directors adopt a resolution approving and declaring the advisability of the merger agreement, the merger and the other transactions contemplated by the merger

agreement and recommending that the stockholders of the Company

adopt the merger agreement. In the course of reaching its determination to make the recommendations described above, the special committee consulted with and received the advice of its financial and legal advisors and considered a number of reasons to enter into the merger agreement and a number of factors that it believed supported its decision to enter into the merger agreement and consummate the proposed merger, including, but not limited to, the following material reasons and/or factors:

the $5.50 per share price to be paid in cash in respect of each share of the Company s common stock, which represented a 37.5% premium over the closing price of the Company s common stock on January 31, 2011, and a premium of approximately 106% over the closing price of our common stock of $2.67 on the NASDAQ Capital Market on July 9, 2010, the trading day immediately prior to the date the Company received an unsolicited proposal from Atlantic for the purchase of all of the outstanding common stock not then owned by Atlantic at a purchase price of $3.05;

the special committee s views and opinions on the current complex hosting, application management and managed cloud services industries, including the competition that the Company expects to face with its cloud services from substantially larger companies which have capital, brands and resources that are far greater than the Company s;

the special committee s understanding of the business, operations, management, financial condition, earnings and prospects of the Company, including the prospects of the Company as an independent entity;

the nature of the industry and economic and market conditions, both on a historical and a prospective basis, including the current volatile state of the economy and continuing uncertainty regarding the robustness of the economic recovery and customer demand;

the retention of Raymond James, as financial advisor, and RLF, as legal advisor, by the special committee, in July 2010;

the financial analyses presented to the special committee by Raymond James and shared with the board of directors, as well as the opinion of Raymond James, dated February 1, 2011, to the special committee to the effect that, as of that date, and based upon and subject to the various assumptions made, procedures followed, matters considered and qualifications and limitations set forth therein, the $5.50 cash per share merger consideration to be received by the holders of shares of the Company s common stock (other than the Company, TWC and the Merger Sub and their respective subsidiaries) pursuant to the merger agreement was fair, from a financial point of view, to such holders. The full text of the written opinion of Raymond James is attached as Annex B to this proxy statement;

the possible alternatives to a sale to TWC, including continuing as a stand-alone company, which alternatives the special committee evaluated with the assistance of Raymond James and determined were less favorable to the Company s stockholders than the merger given the potential risks and uncertainties associated with those alternatives;

the public offer made by Atlantic to acquire the Company on July 12, 2010, the press release issued by the special committee responding to such offer on August 6, 2010, including its intent to consider strategic alternatives, and subsequent SEC filings made by Atlantic;

the strategic review process undertaken by the special committee, in which numerous potential parties were contacted;

the indications of interest and bids that were received by the special committee in 2010 and in 2011;

the recent and historical market prices of the Company s common stock;

the terms of the merger agreement, including the parties representations, warranties and covenants, and the conditions to their respective obligations;

Table of Contents

the likelihood that the merger would be completed based on, among other things (not in any relative order of importance):

the reputation of TWC;

the fact that TWC and Merger Sub have available cash on hand and are able to fund and complete the transactions contemplated by the merger agreement and the correlating absence of a financing condition in the merger agreement;

the Company s ability, under certain circumstances pursuant to the merger agreement, to seek specific performance to prevent breaches of the merger agreement and to enforce specifically the terms of the merger agreement;

the fact that the consideration to be paid in the proposed merger is all cash, which provides certainty of value and liquidity to the Company s stockholders;

the other terms of the merger agreement and related agreements, including:

the Company s ability to consider and respond to an unsolicited acquisition proposal or engage in discussions or negotiations with the person making such a proposal;

the board of director s ability, under certain circumstances, to withhold, withdraw, qualify or modify its recommendation that its stockholders vote to adopt the merger agreement;

the Company s ability, under certain circumstances, to terminate the merger agreement in order to enter into an agreement providing for a superior proposal, provided that the Company complies with its obligations relating to the entering into of any such agreement and concurrently with the termination of the merger agreement pays to TWC a termination fee of $7.5 million, plus up to $1.5 million in TWC s expenses;

the availability of appraisal rights under the DGCL to holders of the Company s common stock or our Series A Convertible Preferred Stock who comply with all of the required procedures under the DGCL, which allows such holders to seek appraisal of the fair value of their shares of the Company s common stock or our Series A Convertible Preferred Stock as determined by the Delaware Court of Chancery; and

whether the outside termination date of August 1, 2011 under the merger agreement allows for sufficient time to complete the merger.

The special committee also believes that sufficient procedural safeguards were and are present to ensure the fairness of the proposed merger and to permit the special committee to represent effectively the interests of the Company s unaffiliated stockholders. These procedural safeguards include:

the fact that the special committee is comprised of three independent directors who are not officers or employees of the Company or any of its subsidiaries and who have no material financial interest in the merger that is different from that of our stockholders generally;

the fact that the determination to engage in discussions related to the proposed merger and the consideration and negotiation of the price and other terms of the proposed merger was conducted entirely under the oversight of the members of the special committee and its advisors and without any limitation on the authority of the

special committee to act with respect to any alternative transaction or any related matters;

the recognition by the special committee that it had the authority not to recommend the approval of the merger or any other transaction;

the fact that the special committee was advised by Raymond James, as financial advisor, and RLF, as legal advisor, and the fact that the special committee requested and received from Raymond James an opinion (based upon and subject to the various assumptions made, procedures followed, matters considered and qualifications and limitations set forth therein), as of February 1, 2011, with respect to

the fairness of the common stock merger consideration to be received by the holders of the Company s common stock (other than the Company, TWC and Merger Sub and their respective subsidiaries);

In the course of its deliberations, the special committee also considered a variety of risks and other countervailing factors related to entering into the merger agreement and the proposed merger, including:

the merger will preclude the Company s stockholders from having the opportunity to participate in the future performance of its assets, future earnings growth, future appreciation of the value of its capital stock or future dividends that could be expected if its strategic plan were successfully implemented;

that under the merger agreement the Company does not have the ability to initiate, solicit and encourage alternative acquisition proposals from third parties or negotiate with third parties with respect to such proposals;

the costs involved in connection with entering into and completing the merger and the time and effort of management required to complete the merger and related disruptions to the operation of the Company s business;

the restrictions on the conduct of the Company s business prior to the completion of the proposed merger, which may delay or prevent the Company from undertaking business opportunities that may arise or any other action it would otherwise take with respect to the operations of the Company pending completion of the proposed merger;

the risks and costs to the Company if the proposed merger does not close, including the diversion of management and employee attention, potential employee attrition and the potential disruptive effect on business and customer relationships;

that if the proposed merger is not completed, the Company will be required to pay its own expenses associated with the merger agreement, the merger and the other transactions contemplated by the merger agreement as well as, under certain circumstances, pay TWC a termination fee of $7.5 million, plus up to $1.5 million in TWC s expenses, in connection with the termination of the merger agreement;

the possibility that the Company will be required to pay a termination fee upon the termination of the merger agreement could discourage other potential acquirors from making a competing bid to acquire the Company;

the possibility that conditions to the parties obligations, including with respect to required antitrust and other regulatory approvals, to complete the merger may not be satisfied;

the fact that an all cash transaction would be taxable to the Company s stockholders that are U.S. holders for U.S. federal income tax purposes;

the fact that some of our directors and executive officers have interests in the merger that are different from, or in addition to, the interests of our stockholders generally; and

the entry into voting agreements by Atlantic, Arthur Becker and netASPx Holdings, Inc., and TWC providing that such stockholders will vote to adopt the merger agreement and the fact that such voting agreements terminate upon a termination of the merger agreement.

The foregoing discussion of the reasons and/or factors considered by the special committee is not intended to be exhaustive, but rather includes the principal reasons and/or factors considered by the special committee. The special committee collectively reached the conclusion to approve the merger agreement, the merger and the other transactions contemplated by the merger agreement in light of the various reasons and/or factors described above and other reasons and/or factors that the members of the special committee believed were appropriate. In view of the wide variety of reasons and/or factors considered by the special committee in connection with its evaluation of the proposed merger and the complexity of these matters, the special committee did not consider it practical, and did not attempt, to quantify, rank or otherwise assign relative weights to the specific reasons and/or factors it considered in reaching its decision and did not undertake to make any specific determination as

to whether any particular reason and/or factor, or any aspect of any particular reason and/or factor, was favorable or unfavorable to the ultimate determination of the special committee. Rather, the special committee made its recommendation based on the totality of information presented to it and the investigation conducted by it. In considering the reasons and/or factors discussed above, individual members of the special committee may have given different weights to different reasons and/or factors.

Recommendation of the Company s Board of Directors

The board of directors, acting upon the unanimous recommendation of the special committee, at a meeting described above on February 1, 2011:

- deemed it advisable and in the best interests of the Company and its stockholders that the Company enter into the merger agreement, and that the merger agreement, the merger and the other transactions contemplated by the merger agreement are advisable and fair to and in the best interests of the Company and its stockholders; and

- directed that the adoption of the merger agreement be submitted to a vote at a meeting of the stockholders of the Company and recommended to the stockholders of the Company that they vote for the adoption of the merger agreement and all other actions or matters necessary or appropriate to give effect to the foregoing pursuant to the DGCL.

In reaching these determinations, the board of directors considered a number of reasons and/or factors, including the following material factors:

- the special committee s unanimous recommendation that the merger agreement, the merger and the other transactions contemplated by the merger agreement were advisable and in the best interests of the Company and its stockholders and that the board of directors adopt a resolution approving and declaring the advisability of the merger agreement, the merger and the other transactions contemplated by the merger agreement and recommending that the stockholders of the Company adopt the merger agreement;

- the fact that the special committee is comprised of three independent directors who are not officers or employees of the Company or any of its subsidiaries and who have no material financial interest in the merger that is different from that of our stockholders generally; and

- the financial analysis presented to the special committee by Raymond James and shared with the board of directors, as well as the opinion of Raymond James, dated February 1, 2011, to the special committee, to the effect that, as of that date, and based upon and subject to the various assumptions made, procedures followed, matters considered and qualifications and limitations set forth therein, the $5.50 cash per share merger consideration to be received by the holders of shares of the Company s common stock (other than the Company, TWC and Merger Sub and their respective subsidiaries) pursuant to the merger agreement was fair, from a financial point of view, to such holders (the full text of which is attached as Annex B to this proxy statement).

The foregoing discussion of the reasons and/or factors considered by our board of directors is not intended to be exhaustive, but rather includes the principal reasons and/or factors considered by our board of directors. Our board of directors collectively reached the conclusion to approve the merger agreement, the merger and the other transactions contemplated by the merger agreement in light of the various reasons and/or factors described above and other reasons and/or factors that the members of the board of directors believed were appropriate. In view of the wide variety of reasons and/or factors considered by the board of directors in connection with its evaluation of the proposed merger and the complexity of these matters, the board of directors did not consider it practical, and did not attempt, to

quantify, rank or otherwise assign relative weights to the specific reasons and/or factors it considered in reaching its decision and did not undertake to make any specific determination as to whether any particular reason and/or factor, or any aspect of any particular reason and/or factor, was favorable or unfavorable to the ultimate determination of the board of directors. Rather, our board of directors made its recommendation based on the totality of information presented to it and the investigation conducted by it. In considering the reasons and/or factors discussed above, individual directors may have given different weights to different reasons and/or factors.

In connection with the consummation of the merger, certain of the Company s directors may receive benefits and compensation that may differ from the per share merger consideration you would receive. See Interests of the Company s Directors and Executive Officers in the Merger beginning on page 44 of this proxy statement.

The board of directors recommends that you vote FOR the proposal to adopt the merger agreement and FOR the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies.

Opinion of Raymond James & Associates, Inc. to the Special Committee

The special committee retained Raymond James as financial advisor on July 26, 2010. In connection with that engagement, the special committee requested that Raymond James evaluate the fairness, from a financial point of view, to the holders of the Company s outstanding common stock of the common stock merger consideration to be received by such holders pursuant to the merger agreement.

At the February 1, 2011 meeting of the special committee, Raymond James rendered its opinion that, as of such date and based upon and subject to various qualifications and assumptions described with respect to its opinion, the common stock merger consideration to be received by the holders of the Company s common stock pursuant to the merger agreement was fair, from a financial point of view, to the holders of the Company s outstanding common stock.

The full text of the written opinion of Raymond James, dated February 1, 2011, which sets forth assumptions made, matters considered, and limits on the scope of review undertaken, is attached as Annex B to this document. The summary of the opinion of Raymond James set forth in this document is qualified in its entirety by reference to the full text of such opinion.

Holders of the Company s common stock are urged to read this opinion in its entirety. Raymond James s opinion, which is addressed to the special committee, is directed only to the fairness, from a financial point of view, of the common stock merger consideration to be received by holders of the Company s common stock in connection with the proposed merger. Raymond James s opinion does not constitute a recommendation to any holder of the Company s common stock as to how such stockholder should vote at the special meeting of stockholders and does not address any other aspect of the proposed merger or any related transaction.

In connection with rendering its opinion, Raymond James, among other things:

- reviewed the financial terms and conditions as stated in the draft merger agreement;
- reviewed the Company s annual reports filed on Form 10-K for the fiscal years ended July 31, 2009 and July 31, 2010 and the 10-Q for the fiscal quarter ended October 31, 2010;
- reviewed certain other publicly available information on the Company;
- reviewed other Company financial and operating information provided by Company management, including financial forecasts and estimates covering the period 2011-2015;
- reviewed the historical stock price and trading activity for the shares of the Company s common stock;
- discussed the Company s operations, historical financial results, and future prospects with members of the senior management team of the Company;
- discussed with senior management of the Company certain information related to the aforementioned;

compared financial and stock market information for the Company with similar information for certain other companies with publicly-traded equity securities;

reviewed the financial terms and conditions of certain recent business combinations involving companies in businesses it deemed to be sufficiently similar to those of the Company; and

considered such other quantitative and qualitative factors that it deemed to be relevant to its evaluation.

In connection with its review, Raymond James assumed and relied upon the accuracy and completeness of all information supplied or otherwise made available to Raymond James by the Company or any other party, and did not undertake any duty or responsibility to verify independently any of such information. Raymond James has not made or obtained an independent appraisal of the assets or liabilities (contingent or otherwise) of the Company. With respect to financial forecasts and other information and data provided to or otherwise reviewed by or discussed with Raymond James, Raymond James assumed that such forecasts and other information and data were reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of management.

In rendering its opinion, Raymond James assumed that the merger would be consummated on the terms described in the merger agreement. Furthermore, Raymond James assumed, in all respects material to its analysis, that the representations and warranties of each party contained in the merger agreement were true and correct, that each party will perform all of the covenants and agreements required to be performed by it under the merger agreement and that all conditions to the consummation of the merger will be satisfied without being waived. Raymond James also assumed that all material governmental, regulatory or other consents and approvals will be obtained and that, in the course of obtaining any necessary governmental, regulatory or other consents and approvals, or any amendments, modifications or waivers to any documents to which the Company is a party, as contemplated by the merger agreement, no restrictions will be imposed or amendments, modifications or waivers made that would have any material adverse effect on the Company. In its financial analyses, Raymond James assumed the common stock merger consideration had a value of $5.50 per share. Raymond James expressed no opinion as to the underlying business decision to effect the merger, the structure or tax consequences of the merger agreement, or the availability or advisability of any alternatives to the merger. In the capacity of rendering the opinion, Raymond James reviewed the terms of the merger agreement and offered no judgment as to the negotiations resulting in such terms.

In conducting its investigation and analyses and in arriving at its opinion, Raymond James took into account such accepted financial and investment banking procedures and considerations as it has deemed relevant, including the review of (i) historical and projected revenues, operating earnings, net income and capitalization of the Company and certain other publicly held companies in businesses Raymond James believes to be comparable to the Company; (ii) the current and projected financial position and results of operations of the Company; (iii) the historical market prices and trading activity of the Company s common stock; (iv) financial and operating information concerning selected business combinations which Raymond James deemed comparable in whole or in part; and (v) the general condition of the securities markets. The delivery of its opinion was approved by Raymond James s fairness opinion committee.

The following summarizes the material financial analyses presented by Raymond James to the special committee at its meeting on February 1, 2011, which material was considered by Raymond James in rendering the opinion described below. No company or transaction used in the analyses described below is directly comparable to the Company or the contemplated merger.

Trading Analysis. Raymond James analyzed historical closing prices of the Company and compared them to the value of the common stock merger consideration. The results of this analysis are summarized below:

	Price Per Share	**Implied Premium**
Merger consideration value	$ 5.50	
NaviSite closing stock price as of 1/31/2011	4.00	37.5%
52-week high NaviSite closing stock price (1/13/2011)	4.05	35.8%

52-week low NaviSite closing stock price (5/20/2010)	2.40	129.2%

Selected Public Companies Analysis. Raymond James analyzed the relative valuation multiples of five publicly-traded information technology hosting and outsourcing companies, including:

Equinix, Inc.

Rackspace Hosting, Inc.

SAVVIS, Inc.

Internap Network Services Corp.

Peer 1 Network Enterprises, Inc.

Although none of the selected companies are directly comparable to the Company, the selected companies were chosen because they are publicly traded companies that operate in a similar industry as the Company and have lines of business and financial and operating characteristics similar to the Company. Raymond James determined, using its professional judgment, that these selected companies were the most appropriate for purposes of this analysis and, while there may have been other companies that operate in similar industries to the Company or have similar principal lines of business or financial or operating characteristics to the Company, Raymond James did not specifically identify any other companies for this purpose. Raymond James excluded companies that may have offered services similar to those of the Company, but that also derived a large part of their revenues from businesses dissimilar to those of the Company. Raymond James calculated various financial multiples for each company, including (i) enterprise value (market value plus debt, capital leases and preferred stock, less cash) compared to both revenue and earnings before interest, taxes, depreciation or amortization, or EBITDA, for the most recent actual twelve months results, referred to as TTM, as well as to estimated EBITDA by Wall Street research analysts for calendar years ending December 31, 2010 and 2011, referred to as CY10E and CY11E, respectively. The estimates for CY10E and CY11E published by Wall Street research analysts were not prepared in connection with the merger or at Raymond James s request and may or may not prove to be accurate. Raymond James reviewed the mean, median, minimum and maximum relative valuation multiples of the selected public companies and compared them to corresponding valuation multiples for the Company implied by the common stock merger consideration. The results of the selected public companies analysis are summarized below:

	Enterprise Value/Revenue			Enterprise Value/EBITDA		
	TTM	CY10E	CY11E	TTM	CY10E	CY11E
Mean	3.5x	3.4x	3.1x	11.6x	11.1x	10.1x
Median	2.7x	2.7x	3.0x	9.9x	10.2x	8.7x
Minimum	1.4x	1.4x	1.4x	8.9x	7.6x	8.1x
Maximum	6.4x	6.1x	5.1x	19.1x	18.1x	14.8x
Merger consideration	2.5x	2.5x	2.2x	11.4x	11.1x	9.2x

Furthermore, Raymond James applied the mean, median, minimum and maximum relative valuation multiples for each of the metrics to the Company s actual and projected financial results and determined the implied equity price per share of the Company s common stock and then compared those implied equity values per share to the common stock merger consideration of $5.50 per share. The results of this are summarized below:

	Enterprise Value/Revenue			Enterprise Value/EBITDA		
	TTM	CY10E	CY11E	TTM	CY10E	CY11E
Mean	$ 8.01	$ 7.73	$ 8.22	$ 5.64	$ 5.48	$ 6.19
Median	5.90	6.06	7.95	4.62	4.92	5.16
Minimum	2.39	2.50	2.91	3.97	3.26	4.75
Maximum	15.63	15.04	14.01	9.97	9.65	9.54

Merger consideration	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.50

Selected Transaction Analysis. Raymond James analyzed publicly available information relating to selected acquisitions of information technology hosting and outsourcing companies and prepared a summary of the relative valuation multiples paid in these transactions. The selected transactions used in the analysis included:

Acquisition of Terremark Worldwide by Verizon Communications

Acquisition of TEAM Technologies by TDS Telecommunications

Acquisition of GreenSoft Solutions by Layered Technologies

Acquisition of Hosted Solutions by Windstream

Acquisition of Host Europe by Montagu Private Equity

Acquisition of Peak 10 by Welsh, Carson, Anderson & Stowe

Acquisition of SoftLayer Technologies by GI Partners

Acquisition of 365 Main / Five Property Data Center Portfolio by Digital Realty Trust

Acquisition of Fusepoint by SAVVIS

Acquisition of Cyrus Networks by Cincinnati Bell Technology Solutions

Acquisition of Viawest Internet Services by GI Partners and Oak Hill Capital Partners

Acquisition of VISI by TDS Telecommunications

Acquisition of NaviSite s NetASPx assets by Velocity Technology Solutions

Acquisition of DS3 Data Vaulting by Terremark

Acquisition of Switch & Data Facilities by Equinix

While none of the companies (other than the Company) that participated in the selected transactions are directly comparable to the Company, the companies that participated in the selected transactions are companies with operations that, for the purposes of this analysis, may be considered similar to certain operations of the Company. Raymond James excluded transactions whose targets may have offered services similar to those of the Company, but that also derived a large part of their revenues from businesses dissimilar to those of the Company.

Raymond James examined valuation multiples of transaction enterprise value compared to the target companies revenue and EBITDA, in each case, for twelve months ended prior to announcement of the transaction and the current calendar year, where such information was publicly available. Information regarding certain precedent transactions was unavailable because the target was privately held and the acquirer did not disclose the relevant information. The valuation ranges set forth below are based on all publicly available data on comparable transactions and Raymond James believes there are sufficient data points to form a representative range of multiples for such transactions. Raymond James reviewed the mean, median, minimum and maximum relative valuation multiples of the selected transactions and compared them to corresponding valuation multiples for the Company implied by the common stock merger consideration. Furthermore, Raymond James applied the mean, median, minimum and maximum relative valuation multiples to the Company s actual and projected performance to determine the implied equity price per share and then compared those implied equity values per share to the common stock merger consideration of $5.50 per share. The results of the selected transactions analysis are summarized below:

	Enterprise Value/Revenue	Enterprise Value/EBITDA

	TTM	CY11E	TTM	CY11E
Mean	4.3x	4.3x	11.2x	10.6x
Median	4.5x	4.1x	11.1x	10.7x
Minimum	1.3x	2.6x	6.0x	6.6x
Maximum	8.1x	7.2x	19.9x	13.9x
Merger consideration	2.5x	2.2x	11.4x	9.2x

Table of Contents

	Enterprise Value/Revenue		Enterprise Value/EBITDA	
	TTM	CY11E	TTM	CY11E
Mean	$ 10.24	$ 11.88	$ 5.39	$ 6.52
Median	10.56	11.22	5.35	6.61
Minimum	2.17	6.74	2.16	3.59
Maximum	20.13	20.48	10.44	8.90
Merger consideration	$ 5.50	$ 5.50	$ 5.50	$ 5.50

Transaction Premium Analysis. Raymond James analyzed the stock price premiums paid in 33 merger and acquisition transactions closed over the past 12 months with implied enterprise values between $200 and $500 million utilizing cash consideration. Raymond James measured each transaction price per share relative to each target s closing price per share one day, seven days and 30 days prior to announcement of the transaction, adjusting the effective announce date for certain transactions in which the target publicly disclosed the receipt of an offer or announced a review of strategic alternatives prior to the announcement of a transaction. Raymond James compared the mean, median, minimum and maximum premiums paid from this set of transactions to the common stock merger consideration expressed as a premium relative to the closing stock price of the Company as of January 31, 2011, January 25, 2011 and December 31, 2010. In addition, Raymond James compared similar metrics to the closing stock price of the Company as of July 12, 2010, July 2, 2010 and June 11, 2010 for an analysis of the premium paid relative to the unaffected stock price prior to receiving an offer to acquire the Company from Atlantic on July 12, 2010. The results of the transaction premium analysis are summarized below (note: summary statistics exclude data points greater than two standard deviations from the mean of the group):

	Implied Premium		
Current Price Analysis	**1-day**	**7-day**	**30-day**
Mean	38.7%	39.6%	49.3%
Median	35.5%	38.1%	44.3%
Minimum	1.9%	(2.1)%	4.0%
Maximum	77.2%	81.4%	136.1%
Merger consideration	$ 5.50	$ 5.50	$ 5.50
NaviSite closing stock price per share	$ 4.00	$ 3.78	$ 3.71
Implied Transaction premium	37.5%	45.9%	48.2%

	Implied Premium		
Unaffected Price Analysis	**1-day**	**7-day**	**30-day**
Mean	38.7%	39.6%	49.3%
Median	35.5%	38.1%	44.3%
Minimum	1.9%	(2.1)%	4.0%
Maximum	77.2%	81.4%	136.1%
Merger consideration	$ 5.50	$ 5.50	$ 5.50
NaviSite closing stock price per share	$ 2.64	$ 2.64	$ 2.53
Implied Transaction premium	108.3%	108.3%	117.4%

Furthermore, Raymond James applied the mean, median, minimum and maximum premiums for each of the metrics to the Company s actual corresponding closing stock prices to determine the implied equity price per share and then compared those implied equity values per share to the common stock merger consideration

Table of Contents

of $5.50 per share. The results of this are summarized below (note: summary statistics exclude data points greater than two standard deviations from the mean of the group):

Current Price Analysis	Implied Equity Price Per Share 1-day	7-day	30-day
Mean	$ 5.55	$ 5.28	$ 5.54
Median	5.42	5.22	5.35
Minimum	4.08	3.70	3.86
Maximum	7.09	6.86	8.76
Merger consideration	$ 5.50	$ 5.50	$ 5.50

Unaffected Price Analysis	Implied Equity Price Per Share 1-day	7-day	30-day
Mean	$ 3.66	$ 3.69	$ 3.78
Median	3.58	3.65	3.65
Minimum	2.69	2.59	2.63
Maximum	4.68	4.79	5.97
Merger consideration	$ 5.50	$ 5.50	$ 5.50

Discounted Cash Flow Analysis. Raymond James analyzed the discounted present value of the Company s projected free cash flows for the years ending July 31, 2011 through 2015 on a standalone basis. Raymond James calculated unleveraged free cash flows, defined as earnings before interest, after taxes, plus depreciation, plus amortization, plus stock based compensation, less capital expenditures, less the change in working capital. Additionally, Raymond James estimated the effect of and utilized the Company s Net Operating Losses in their calculations.

The discounted cash flow analysis was prepared using projections of the financial performance of the Company that were provided to Raymond James by management as described below in Financial Projections . Consistent with the periods included in the financial projections, Raymond James used fiscal year 2015 as the final year for the analysis and applied multiples, ranging from 7.0x to 10.0x, to fiscal 2015 EBITDA in order to derive a range of terminal values for the Company in 2015.

The projected unleveraged free cash flows and terminal values were discounted using rates ranging from 16.0% to 20.0%, which reflected the weighted average after-tax cost of debt and equity capital associated with executing the Company s business plan, factoring in, among other things, an appropriate levered beta, utilizing net debt to lever and re-lever the betas. Raymond James added the ranges of present values of unleveraged free cash flows to the ranges of present values of terminal values, adjusting those values for the Company s current cash, debt and preferred stock balances and dividing by the number of fully diluted shares outstanding to derive a range of present equity values per share of the Company s common stock. Raymond James reviewed the range of per share prices derived in the discounted cash flow analysis and compared them to the price per share for the Company s common stock implied by the common stock merger consideration. The results of the discounted cash flow analysis are summarized below:

Terminal Value EBITDA Multiple		**7.0x**			**8.5x**			**10.0x**	
Discount Rate	**16.0%**	**18.0%**	**20.0%**	**16.0%**	**18.0%**	**20.0%**	**16.0%**	**18.0%**	**20.0%**

Implied Price Per Share	$ 5.30	$ 4.86	$ 4.44	$ 6.34	$ 5.85	$ 5.36	$ 7.40	$ 6.80	$ 6.25

Additional Considerations. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to a partial analysis or summary description. Raymond James believes that its analyses must be considered as a whole and that selecting portions of its analyses, without considering the analyses taken as a whole, would create an incomplete view of the process underlying the analyses set forth in its opinion. In addition, Raymond James considered the results of all such analyses and did not assign relative weights to any of the analyses, but rather made qualitative judgments as to significance and relevance of each analysis and factor, so the ranges of valuations resulting from any particular analysis described above should not be taken to be Raymond James s view of the actual value of the Company.

In performing its analyses, Raymond James made numerous assumptions with respect to industry performance, general business, economic and regulatory conditions and other matters, many of which are beyond the control of the Company. The analyses performed by Raymond James are not necessarily indicative of actual values, trading values or actual future results which might be achieved, all of which may be significantly more or less favorable than suggested by such analyses. Such analyses were provided to the special committee and the Company s board of directors and were prepared solely as part of Raymond James s analysis of the fairness, from a financial point of view, to the holders of the Company s common stock (other than the Company, TWC or Merger Sub and their subsidiaries) of the consideration to be received by such holders in connection with the proposed merger. The analyses do not purport to be appraisals or to reflect the prices at which companies may actually be sold, and such estimates are inherently subject to uncertainty. The opinion of Raymond James was one of many factors taken into consideration by the special committee in making its determination to recommend that the board of directors approve the merger agreement and by the Company s board of directors in making its determination to approve the merger. Consequently, the analyses described above should not be viewed as determinative of the special committee s, the Company board of directors or management s opinion with respect to the value of the Company. The Company placed no limits on the scope of the analysis performed, or opinion expressed, by Raymond James.

Raymond James s opinion was necessarily based upon market, economic, financial and other circumstances and conditions existing and disclosed to it on January 31, 2011, and any material change in such circumstances and conditions may affect Raymond James s opinion, but Raymond James does not have any obligation to update, revise or reaffirm that opinion.

For services rendered in connection with the delivery of its opinion, the Company paid Raymond James a customary investment banking fee upon delivery of its opinion in the amount of $350,000. The Company will also pay Raymond James a customary fee for advisory services in connection with the merger, which is contingent upon the closing of the merger, in the amount equal to 1% of the value of all cash, securities and other property or other assets paid or payable or received, including debt, liabilities and obligations which are assumed in connection with the merger agreement and the transactions contemplated thereby, which is approximately $3,172,000, which amount will be paid at closing, with all fees previously paid to Raymond James credited towards such amount, including the $350,000 paid upon delivery of Raymond James s opinion, a $50,000 retainer fee and four (4) monthly payments of $37,500. The Company also agreed to reimburse Raymond James for its expenses incurred in connection with its services, including the fees and expenses of its counsel, and will indemnify Raymond James against certain liabilities arising out of its engagement. As disclosed in the Background of the Merger section of this proxy statement, Lane Berry, which was subsequently acquired by Raymond James, was engaged by the predecessor committee in 2008 as its independent financial advisor, during which time a retainer of $100,000 was paid to Lane Berry by the Company. Other than in connection with this engagement and its previous engagement by the predecessor committee, Raymond James has not provided services to the Company or the predecessor committee and has not received any compensation from the Company since 2008.

Raymond James is actively involved in the investment banking business and regularly undertakes the valuation of investment securities in connection with public offerings, private placements, business combinations and similar transactions. In the ordinary course of business, Raymond James may trade in the securities of the Company and TWC for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

Financial Projections

NaviSite does not as a matter of course make public long-term projections as to future revenues, earnings or other results due to, among other reasons, the uncertainty of the underlying assumptions and estimates. However, the Company is including prospective financial information in this proxy statement to provide its stockholders access to

certain non-public unaudited prospective financial information that was made available to the special committee and its legal and financial advisors and, the board of directors of the Company in connection with the merger. This information included estimates of revenue, EBITDA, EBIT, net income and earnings per share for the fiscal years 2011 through 2015. The unaudited prospective financial information was not prepared with a view toward public disclosure, and the inclusion of this information should not be regarded as an indication that any of our board of directors, the special committee, the special committee s

legal or financial advisors or any other recipient of this information considered, or now considers, it to be necessarily predictive of actual future results. None of the Company, its respective affiliates nor any other person assumes any responsibility for the accuracy of this information.

While presented with numeric specificity, the unaudited prospective financial information reflects numerous estimates and assumptions with respect to industry performance, general business, economic, regulatory, litigation, market and financial conditions, foreign currency rates, interest on investments, and matters specific to the Company s business, many of which are beyond the Company s control. The unaudited prospective financial information was, in general, prepared solely for internal use and is subjective in many respects. As a result, there can be no assurance that the prospective results will be realized or that actual results will not be significantly higher or lower than estimated. Since the unaudited prospective financial information covers multiple years, such information by its nature becomes less predictive with each successive year. The Company s stockholders are urged to review the Company s most recent SEC filings for a description of risk factors with respect to the Company s business. See Cautionary Statement Concerning Forward-Looking Information beginning on page 16 and Where You Can Find Additional Information beginning on page 79. The unaudited prospective financial information was not prepared with a view toward complying with GAAP, the published guidelines of the SEC regarding projections or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. Neither the Company s independent registered public accounting firm, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the unaudited prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for the unaudited prospective financial information. Furthermore, the unaudited prospective financial information does not take into account any circumstances or events occurring after the date it was prepared.

The following table presents summary selected unaudited prospective financial information for the fiscal years ending 2011 through 2015:

In thousands of dollars, except per share amounts

Historical and Projected Financials	**Projected for the Fiscal Years Ending July 31,**				
$ Thousands	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**
As Reported Revenue	$ 139,044	$ 154,912	$ 173,463	$ 193,476	$ 214,872
Pro Forma Revenue Adjustments	(7,291)	(7,291)	(7,291)	(7,291)	(7,291)
Pro Forma Revenue(1)	131,753	147,621	166,172	186,185	207,581
As Reported Cost of Revenue	87,167	92,128	96,965	102,169	107,718
As Reported Gross Profit	51,877	62,784	76,497	91,307	107,154
% Margin	*37.3%*	*40.5%*	*44.1%*	*47.2%*	*49.9%*
As Reported Total Operating Expenses	42,562	46,583	52,348	60,552	67,171
As Reported EBIT	9,315	16,201	24,149	30,755	39,983
% Margin	*6.7%*	*10.5%*	*13.9%*	*15.9%*	*18.6%*
As Reported Depreciation and Amortization	19,959	19,931	19,863	19,755	19,754
As Reported Stock-Based Compensation	3,300	3,571	3,971	4,371	4,771

As Reported EBITDA	32,574	39,703	47,982	54,881	64,508
% Margin	*23.4%*	*25.6%*	*27.7%*	*28.4%*	*30.0%*
Net Pro Forma EBITDA Adjustments	(2,030)	(2,030)	(2,030)	(2,030)	(2,030)
Pro Forma EBITDA	30,544	37,673	45,952	52,851	62,478
% Margin	*23.2%*	*25.5%*	*27.7%*	*28.4%*	*30.1%*
As Reported Provision for Income Taxes	1,737	4,063	6,957	9,319	12,178
As Reported Net Income	$ 4,053	$ 9,481	$ 16,233	$ 21,745	$ 28,414

Notes:

1. Pro forma to reflect the divestiture of NetASPx (FY 2010), the elimination of data centers in San Francisco (FY 2010), Virginia (FY 2010), Dallas (FY 2011) and Los Angeles (FY 2009), the conversion of a UK data center to an operating lease, the elimination of professional services revenue, severance and one-time items.

Other Projections Provided to Raymond James

In thousands of dollars

	Projected for the Fiscal Years Ending July 31,				
	2011	**2012**	**2013**	**2014**	**2015**
Change in Working Capital	(3,288)	(1,644)	(2,387)	(2,284)	122
Capital Expenditures(1)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)

1. Includes capital expenditures plus forecasted additions to capital leases.

No assurances can be given that these assumptions will accurately reflect future conditions. In addition, although presented with numerical specificity, the above unaudited prospective financial information reflects numerous assumptions and estimates as to future events made by the Company s management that the Company s management believed were reasonable at the time the unaudited prospective financial information was prepared. The above unaudited prospective financial information does not give effect to the merger. The Company s stockholders are urged to review the Company s most recent SEC filings for a description of the Company s reported results of operations, financial condition and capital resources during 2010.

Readers of this proxy statement are cautioned not to place undue reliance on the unaudited prospective financial information set forth above. No representation is made by the Company or any other person to any stockholder of the Company regarding the ultimate performance of the Company compared to the information included in the above prospective financial information. The inclusion of unaudited prospective financial information in this proxy statement should not be regarded as an indication that such prospective financial information will be an accurate prediction of future events nor construed as financial guidance, and they should not be relied on as such.

NAVISITE DOES NOT INTEND TO UPDATE OR OTHERWISE REVISE THE ABOVE PROSPECTIVE FINANCIAL INFORMATION TO REFLECT CIRCUMSTANCES EXISTING AFTER THE DATE WHEN MADE OR TO REFLECT THE OCCURRENCE OF FUTURE EVENTS, EVEN IN THE EVENT THAT ANY OR ALL OF THE ASSUMPTIONS UNDERLYING SUCH PROSPECTIVE FINANCIAL INFORMATION ARE NO LONGER APPROPRIATE OR PROVIDE FUTURE PROJECTIONS.

Interests of the Company s Directors and Executive Officers in the Merger

In considering the recommendation of the Company s board of directors with respect to the merger, you should be aware that some of the Company s directors and executive officers have interests in the merger that are different from, or in addition to, the interests of our stockholders generally.

These interests may present these directors and officers with actual or potential conflicts of interest, and these interests, to the extent material, are described below. The Company s board of directors was aware of these interests and considered them, among other matters, in approving the merger agreement and the merger. All of the amounts listed on the tables below represent amounts payable prior to any applicable withholding taxes. The special committee was also aware of these interests and considered them, among other matters, when recommending that the full board approve the merger. See also The Voting Agreements beginning on page 54 for a description of the voting agreement entered into with Arthur Becker and Atlantic.

Special Committee Compensation

In consideration of the expected time and effort that would be required of the members of the special committee in evaluating strategic alternatives, on July 15, 2010, the board of directors determined that the chairman of the special committee would receive a retainer of $15,000 plus $2,000 per meeting and that each other member of the special committee would receive a retainer of $10,000 plus $2,000 per meeting. Such fees were payable whether or not the merger agreement or any other transaction was entered into by the Company and payment of such fees is not conditioned upon the merger being completed. No other meeting

fees or other compensation (other than reimbursement for out-of-pocket expenses in connection with attending special committee meetings) will be paid to the members of the special committee in connection with their service on the special committee.

Treatment of Outstanding Stock Options

As described in The Merger Agreement Treatment of Stock Options, Restricted Stock and Other Equity Awards beginning on page 59, the merger agreement provides that, at the effective time of the merger, each outstanding unexercised option to purchase our common stock, whether vested or unvested, will be canceled and the holder thereof will be entitled to receive a cash payment equal to the product of the total number of shares of our common stock subject to the option as of the effective time multiplied by the excess, if any, of $5.50 over the exercise price per share of the Company s common stock subject to such option, less applicable withholding taxes. Options with an exercise price per share equal to or greater than $5.50 will be canceled with no consideration paid to the holder thereof.

The following table sets forth, for each of our directors and executive officers holding stock options as of February 15, 2011, (a) the aggregate number of shares of the Company s common stock subject to vested stock options, (b) the value of such vested stock options on a pre-tax basis, calculated by multiplying (i) the excess, if any, of $5.50 over the respective per share exercise prices of those stock options by (ii) the number of shares of the Company s common stock subject to those stock options, (c) the aggregate number of unvested stock options that will vest as of the effective time of the merger, assuming the director or executive officer remains employed by the Company at that date, (d) the value of those unvested stock options on a pre-tax basis, calculated by multiplying (i) the excess, if any, of $5.50 over the respective per share exercise prices of those stock options by (ii) the number of shares of the Company s common stock subject to those stock options, (e) the aggregate number of shares of the Company s common stock subject to vested stock options and unvested stock options for such individual as of the effective time of the merger, assuming the director or executive officer remains employed by the Company at that date, and (f) the aggregate amount of consideration that we expect to offer for all such stock options in connection with the merger.

Please note that the table below includes shares of the Company s common stock subject to outstanding vested and unvested stock options that do not have a corresponding value for purposes of the disclosure in this proxy statement due to the per share exercise price of such stock options exceeding the $5.50 common stock merger consideration.

	Vested Stock Options		Unvested Stock Options That Will Vest as a Result of the Merger		Aggregate Offer Consideration for All Stock Options	
Name	**Shares**	**Value**	**Shares**	**Value**	**Shares**	**Value**
Executive Officers						
Claudine Bianchi	14,166	$ 47,281	25,834	$ 84,319	40,000	$ 131,600
R. Brooks Borcherding	21,875	66,063	53,125	160,438	75,000	226,501
Mark Clayman	314,583	864,341	35,417	106,959	350,000	971,300
Denis Martin	256,041	721,293	33,959	114,457	290,000	835,750
James Pluntze	292,083	845,766	35,417	106,959	327,500	952,725
Sumeet Sabharwal	274,583	794,541	35,417	106,959	310,000	901,500
Roger Schwanhausser	47,708	183,078	62,292	227,122	110,000	410,200
Directors						
Arthur Becker	1,132,291	$ 2,793,644	70,834	$ 213,919	1,203,125	$ 3,007,563

James Dennedy	115,000	299,450	0	0	115,000	299,450
Thomas Evans	95,000	219,250	0	0	95,000	219,250
Andrew Ruhan	80,000	276,450	0	0	80,000	276,450
Larry Schwartz	115,000	299,450	0	0	115,000	299,450
All Executive Officers and Directors holding Stock Options as a group	2,758,330	$ 7,410,607	352,295	$ 1,121,132	3,110,625	$ 8,531,739

45

Treatment of Restricted Shares

As described in The Merger Agreement Treatment of Stock Options, Restricted Stock and Other Equity Awards beginning on page 59, at the effective time of the merger, all shares of restricted stock issued under our equity incentive plans (other than certain performance-based restricted shares) which are then outstanding, whether vested or unvested, will be canceled and the holder of each such award will be entitled to receive a cash payment of $5.50 per share of restricted stock, less any applicable withholding taxes. For a discussion of the treatment of certain shares of restricted stock subject to performance-based vesting held by Messrs. Becker, Clayman, Martin, Pluntze and Sabharwal, see Treatment of Performance-Based Restricted Shares below.

The following table identifies, for each of our directors and executive officers holding shares of restricted stock, the aggregate number of shares of restricted stock as of February 15, 2011, and the pre-tax value of such shares of restricted stock that will become fully vested in connection with the merger as calculated by multiplying the $5.50 common stock merger consideration by the number of shares of restricted stock.

Name	Aggregate Number of Restricted Shares	Value of Restricted Shares
Executive Officers		
Claudine Bianchi	0	$ 0
R. Brooks Borcherding	83,334	458,337
Mark Clayman	0(1)	0
Denis Martin	0(1)	0
James Pluntze	0(1)	0
Sumeet Sabharwal	0(1)	0
Roger Schwanhausser	0	0
Directors		
Arthur Becker	13,126(1)	$ 72,193
James Dennedy	13,126	72,193
Thomas R. Evans	13,126	72,193
Andrew Ruhan	13,126	72,193
Larry Schwartz	13,126	72,193
All Executive Officers and Directors holding Restricted Shares as a group	148,964	$ 819,302

(1) Excludes shares of restricted stock subject to performance-based vesting a description of which see Treatment of Performance-Based Restricted Shares below.

Treatment of Performance-Based Restricted Shares

As described in The Merger Agreement Treatment of Stock Options, Restricted Stock and Other Equity Awards beginning on page 59, at the effective time of the merger, all shares of restricted stock issued under our Amended and Restated 2003 Stock Incentive Plan that are subject to performance-based vesting and which would not otherwise vest in accordance with its terms as of the effective time, shall, at the effective time of the merger, be canceled without any cash payment to the holder thereof.

The performance-based awards noted above were granted on July 22, 2008. The restrictions lapse upon the Company meeting certain market capitalization objectives, as discussed in detail below. As of the date of this proxy statement, the performance objectives have not yet been achieved.

The restrictions lapse as follows (i) for the first 1/3 of the shares, 50% vests upon the Company exceeding a market capitalization of $182,330,695 for 20 consecutive trading days and, so long as the employee remains employed by the Company, the remaining 50% of such 1/3 vests on the one year anniversary thereafter, (ii) for

the second 1/3 of the shares, 50% vests upon the Company exceeding a market capitalization of $232,330,695 for 20 consecutive trading days, and so long as the employee remains employed by the Company, the remaining 50% of such 1/3 vests on the one year anniversary thereafter, and (iii) for the final 1/3 of the shares, 50% vests upon the Company exceeding a market capitalization of $282,330,695 for 20 consecutive trading days and, so long as the employee remains employed by the Company, the remaining 50% of such 1/3 vests on the one year anniversary thereafter.

In the event there is a change of control of the Company which results in a market capitalization: (x) exceeding $182,330,695, then 100% of the first 1/3 of the shares will vest immediately, so long as the employee remains employed by the Company as of such date, with the remainder of the shares being forfeited; (y) exceeding $232,330,695, then 100% of the first and second 1/3 of the shares will vest immediately, so long as the employee remains employed by the Company as of the date of such change of control, with the remainder of the shares being forfeited; or (z) exceeding $282,330,695, then 100% of all of the shares will vest immediately, so long as the employee remains employed by the Company as of such date. Any shares that do not vest in connection with a change of control shall be forfeited immediately.

As of the date of this proxy statement, we expect that in connection with the change of control which will occur at the effective time, the market capitalization will be greater than $182,330,695 but will not exceed $232,330,695; therefore, 100% of the first 1/3 of the shares will vest immediately, unless already vested, and will be canceled and the holder of such shares will be entitled to receive a cash payment of $5.50 per such vested shares of restricted stock, less any applicable withholding taxes. The remaining 2/3 of the shares will not vest and will be canceled without any cash payment to the holder thereof.

The following table identifies, for each of our directors and executive officers holding shares of restricted stock subject to performance-based vesting, the aggregate number of shares of restricted stock subject to performance-based vesting, and the pre-tax value of the number of shares of restricted stock that we expect will become fully vested in connection with the merger as calculated by multiplying the $5.50 common stock merger consideration by such number of shares of restricted stock.

Name	**Aggregate Number of Restricted Shares**	**Number of Restricted Shares That Will Vest as a Result of the Merger**	**Value of Restricted Shares That Will Vest as Result of the Merger**
Executive Officers			
Mark Clayman	120,000	40,000	$ 220,000
Denis Martin	70,000	23,333	128,332
James Pluntze	120,000	40,000	220,000
Sumeet Sabharwal	70,000	23,333	128,332
Directors			
Arthur Becker	277,000	92,333	$ 507,832
All Executive Officers and Directors holding Restricted Shares as a group	657,000	218,999	$ 1,204,496

Separation Agreements

We have separation agreements with Messrs. Borcherding, Clayman, Martin, Pluntze and Sabharwal. Under each of these agreements, we are required to pay severance benefits in connection with certain terminations of employment. Certain of the agreements do provide for special accelerated vesting of certain outstanding equity awards which would not be applicable in connection with a termination of employment in connection with the merger since all outstanding equity awards will become vested and cashed out in connection with the closing of the merger as described above. TWC has agreed to honor the terms of the separation agreements in existence as of the date of the merger agreement, subject in each case to their respective terms.

For each of Messrs. Borcherding, Clayman, Pluntze and Sabharwal, these separation agreements entitle each of them to specified benefits upon termination following a change in control of the Company under certain circumstances. The completion of the merger would constitute a change in control under the separation agreements we entered into with each of Messrs. Borcherding, Clayman, Pluntze and Sabharwal. The separation agreements provide severance and other benefits if any of the above executive officer s employment is terminated by the Company without cause, or by the executive officer for good reason at any time following a change in control, except that Mr. Sabharwal must terminate employment for good reason within twelve (12) months following a change in control. For Mr. Martin, his separation agreement does not provide for special termination benefits if the termination occurs in connection with a change in control. Mr. Martin s separation agreement provides severance and other benefits if his employment is terminated by the Company without cause, or by him for good reason.

Good reason under the separation agreements is generally defined to include a significant diminution in the executive officer s position, duties, responsibilities, power or office, a reduction in base salary, a discontinuation or reduction of a material compensation or benefit plan unless an equitable arrangement is made, a discontinuation or reduction of any benefits, or a material change in place of employment.

For (i) each of Messrs. Borcherding, Clayman, Pluntze and Sabharwal, the benefits provided under the separation agreements upon being terminated without cause, or by the executive officer for good reason following a change in control (provided that we have thirty (30) days to remedy the situation resulting in a good reason) and (ii) Mr. Martin, the benefits provided under his separation agreement upon being terminated without cause, or by him for good reason (provided that we have thirty (30) days to remedy the situation resulting in a good reason), include the following, subject to the executive officer s execution of a valid general release and waiver of any claims he may have against us:

- his annual base salary in effect on the date of termination for a period of six (6) months, except that (i) Messrs. Clayman and Sabharwal shall receive the higher of (x) his annual base salary in effect on the date of termination or (y) his annual base salary in effect immediately before the change in control, and (ii) Mr. Borcherding shall receive his annual base salary in effect on the date of termination for a period of twelve (12) months;

- a lump sum bonus payment equal to his target bonus for the current fiscal year pro rated to the date of termination;

- any unpaid bonus from the prior fiscal year;

- all legal fees and expenses incurred by the executive officer in seeking to obtain or enforce any right provided by the separation agreements; and

- reimbursement for COBRA payments for health and welfare benefits continuation if he elects COBRA coverage for a period of six (6) months.

None of the executive officers will be entitled to the foregoing benefits if an equivalent benefit is received by him from another employer during the six-month period following his termination.

If we terminate any of Messrs. Borcherding s, Clayman s, Martin s, Pluntze s or Sabharwal s employment for cause or he terminates his employment without good reason, then each such executive officer will be entitled to any accrued but unpaid salary and any other accrued but unpaid compensation, in each case, through the date of his termination, as well as any amounts to which he is entitled under any compensation plan of the Company at the time such payments are due. In addition, in the event that any payment or benefit provided to each such executive officer under the separation agreements or under any other plan, program or arrangement of ours in connection with a change in control

(as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the Code)) becomes subject to the excise taxes imposed by Section 4999 of the Code, each such executive officer will be entitled to receive a gross up payment in connection with any such excise taxes.

Claudine Bianchi and Roger Schwanhausser are not currently party to any separation agreement with the Company. However, upon a termination of employment without cause, Ms. Bianchi and Mr. Schwanhausser may be entitled to severance benefits under the standard severance policies of the Company.

The following table sets forth an estimate of the potential cash severance payments that would be payable as described above in the event that the employment of an executive officer was terminated without cause or the executive officer resigned for good reason in connection with the merger (where applicable) (assuming, for illustrative purposes, that (1) the executive officer s employment is terminated on July 31, 2011 (the last day of the Company s fiscal year), (2) base salaries remain at current levels, and (3) the Company achieves its performance targets for the fiscal year ended July 31, 2011). The value of any accelerated vesting of equity awards to which any executive officer would otherwise be entitled is not included since all outstanding equity awards, with limited exceptions described above under Treatment of Performance-Based Restricted Shares , will become fully vested and be cashed out in connection with the closing of the merger as described above.

Executive Officer	Cash Severance Payment	Cash Bonus Payment(3)	Other Benefits(4)
Claudine Bianchi	$ 23,077(1)	$ N/A	$ N/A
R. Brooks Borcherding	320,000(2)	235,000	3,099
Mark Clayman	100,000(2)	150,000	808
Denis Martin	112,500(2)	100,000	9,361
James Pluntze	137,500(2)	125,000	9,361
Sumeet Sabharwal	100,000(2)	120,000	N/A
Roger Schwanhausser	34,615(1)	N/A	N/A

(1) Ms. Bianchi and Mr. Schwanhausser do not have separation agreements with the Company. The amounts in the table represent eight (8) weeks of base salary, determined based upon the Company s standard severance guidelines.

(2) Represents amount equal to continued payment of base salary for the period of one (1) year for Mr. Borcherding and for the period of six (6) months for each of Messrs. Clayman, Martin, Pluntze and Sabharwal following termination assuming that the executive officer does not obtain other paid employment during that period.

(3) Represents amount equal to lump sum bonus payment that the executive officer would otherwise have received for fiscal year 2011 per the executive officer s performance-based cash bonus agreement (assuming target bonus payment).

(4) Represents an amount equal to the Company s total COBRA cost to executive officers to continue coverage under the Company s health insurance plan for six (6) months (assuming, in each case, that the executive officer did not obtain other employment during that period).

Separation Agreement with Arthur Becker

On September 21, 2010, the Company entered into a separation agreement with Arthur Becker. In the event that any payment or benefit provided to Mr. Becker under the separation agreement or under any other plan, program or arrangement of ours in connection with a change in control (as defined in Section 280G of the Code) becomes subject

to the excise taxes imposed by Section 4999 of the Code, Mr. Becker will be entitled to receive a gross up payment in connection with any such excise taxes.

Other Agreements

TWC has agreed to honor all employment, separation and performance-based cash bonus agreements in existence as of the date of the merger agreement subject in each case to their respective terms. In addition to the separation agreements noted above under Separation Agreements , each executive officer has a performance-based cash bonus agreement. Under the terms of the separation agreements noted above, Messrs. Borcherding, Clayman, Martin, Pluntze and Sabharwal would receive the pro rata lump sum bonus payment that he would otherwise have

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received for fiscal year 2011 per his performance-based cash bonus agreement in the event that his employment was terminated without cause or he resigned for good reason. However, since TWC has agreed to honor the performance-based cash bonus agreements of the executive officers, each of Messrs. Borcherding, Clayman, Martin, Pluntze and Sabharwal may be entitled to receive a bonus payment for fiscal year 2011 per his performance-based cash bonus agreement regardless of whether his employment is terminated without cause or he resigns for good reason. The amount Messrs. Borcherding, Clayman, Martin, Pluntze and Sabharwal may be entitled to receive, assuming the Company achieves its performance targets for the fiscal year ending on July 31, 2011 and assuming target bonus payment, is set forth above in the chart included in the Separation Agreements section. The amount Ms. Bianchi and Mr. Schwanhausser may be entitled to receive, assuming the Company achieves its performance targets for the fiscal year ending on July 31, 2011 and assuming target bonus payment, is $50,000 and $100,000, respectively.

Employee Benefits

The merger agreement requires TWC or the surviving corporation to continue to provide certain compensation and benefits for a period of one year from the consummation of the merger, as well as take certain actions in respect of employee benefits provided to the Company s employees, including its executive officers. For a more detailed description of these requirements, please see The Merger Agreement Employee Benefit Arrangements beginning on page 67.

New Management Arrangements with Executive Officers

As of the date of this proxy statement, none of the Company s executive officers or directors has entered into any amendments or modifications to his or her existing employment arrangements with the Company in connection with the merger, nor has any entered into any employment or other agreement with TWC or its affiliates. It is expected that the Company s executive officers will continue employment with TWC after the closing of the merger.

Indemnification of Directors and Officers

The merger agreement provides that for six years after the effective time of the merger, TWC is required to cause the surviving corporation of the merger to indemnify and hold harmless, to the fullest extent permitted by applicable law, each person who is now or was prior to the effective time of the merger a director, officer, employee, fiduciary or agent of the Company or any of its subsidiaries against any losses, claims, damages, liabilities, costs, expenses, judgments, fines and amounts paid in settlement in connection with any threatened or actual claim, action, suit, demand, proceeding or investigation in respect of, or relating to (i) the fact that such person is or was a director, officer, employee, fiduciary or agent of the Company or any of its subsidiaries, or is or was serving at the request of the Company or any of its subsidiaries as a director, officer, employee, fiduciary or agent of another corporation, partnership, joint venture, trust or other enterprise, or (ii) the negotiation, execution or performance of the merger agreement, any agreement or document contemplated by or delivered in connection with the merger agreement, or any of the transactions contemplated by the merger agreement, whether in any case asserted or arising at or before or after the effective time. In addition, for six years after the effective time of the merger, TWC is required to cause the surviving corporation of the merger to advance, to the extent permitted under applicable law, all expenses incurred by such indemnified person in connection with such claim; provided that the person to whom expenses are advanced provides an undertaking prior to the advancement of expenses to repay such advances if it is ultimately determined that such person is not entitled to indemnification pursuant to the merger agreement. All claims for indemnification that TWC received written notice of prior to the sixth anniversary of the effective time of the merger will survive until the final disposition of such claim. However, neither the Company nor the surviving corporation will be liable for any settlement effected without its prior written consent; also, the Company and the surviving corporation will have no obligation under this provision to any indemnified person if a court of competent jurisdiction ultimately determines in

a final and non-appealable judgment that indemnification by them of such indemnified person is prohibited by applicable law.

Table of Contents

In addition, from and after the effective time of the merger, TWC is required to cause the surviving corporation of the merger to honor in all respects the obligations of the Company and its subsidiaries pursuant to (i) any indemnification agreement between the Company and any of its subsidiaries, on the one hand, and any person who is a director, officer, employee or agent of the Company or any of its subsidiaries, on the other hand, which indemnification agreement was made available to TWC before the execution of the merger agreement, and (ii) any indemnification provisions under the certificates of incorporation or bylaws (or other applicable organizational documents) of the Company or any of its subsidiaries.

For six years after the effective time of the merger, TWC is required to cause to be maintained the current policies of directors and officers liability insurance maintained by the Company (provided that TWC may substitute policies with reputable and financially sound carriers of at least the same coverage and amount containing terms and conditions which are no less advantageous) with respect to claims arising from or related to facts or events which occurred at or before the effective time. TWC s obligation to provide this insurance coverage is subject to a cap on annual premiums of 300% of the annual premium paid by the Company in its last full fiscal year. If TWC cannot maintain the existing or equivalent insurance coverage without exceeding the 300% cap, TWC is required to obtain a policy with the greatest coverage available for a cost equal to the 300% cap. In lieu of the foregoing, at least ten (10) days prior to the effective time, TWC may purchase a tail or runoff insurance program with an annual aggregate coverage limit over the term of such policy in an amount equal to the annual aggregate coverage limit under the Company s existing directors and officers liability policy, and in all other material respects shall be comparable to such existing coverage, so long as the cost of such policy does not exceed 300% of the annual premium paid by the Company in its last full fiscal year. However, if the current policies of directors and officers liability insurance maintained by the Company cannot be maintained for a cost equal to the 300% cap and such tail or runoff coverage can only be obtained at an annual premium in excess of a cost equal to the 300% cap, TWC will maintain the most advantageous tail or runoff coverage obtainable for an annual premium equal to the cost of the 300% cap.

Material United States Federal Income Tax Consequences

The following is a general discussion of certain material U.S. federal income tax consequences of the merger to our stockholders. We base this summary on the provisions of the Code, applicable current and proposed U.S. Treasury Regulations, judicial authority, and administrative rulings and practice, all of which are subject to change, possibly on a retroactive basis.

For purposes of this discussion, we use the term U.S. holder to mean a beneficial owner of shares of common stock or shares of Series A Convertible Preferred Stock that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the U.S.;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the U.S. or any state or the District of Columbia;
- a trust if it (1) is subject to the primary supervision of a court within the U.S. and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person; or
- an estate the income of which is subject to U.S. federal income tax regardless of its source.

A non-U.S. holder is a person (other than a partnership) that is not a U.S. holder.

This discussion assumes that a beneficial owner holds the shares of our stock as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment). This discussion does not address all aspects of U.S. federal income tax that may be relevant to a beneficial owner in light of the particular circumstances, or that may apply to a beneficial owner that is subject to special treatment under the U.S. federal income tax laws (including, for example, insurance companies, dealers in securities or foreign currencies, traders in securities who elect the mark-to-market method of accounting for their securities, stockholders subject to the alternative minimum tax, persons that have a functional currency other than the U.S. dollar, tax-exempt organizations, financial institutions, mutual funds, partnerships or other pass through entities for U.S. federal income tax purposes, controlled foreign corporations, passive foreign investment

companies, certain expatriates, corporations that accumulate earnings to avoid U.S. federal income tax, stockholders who hold shares of our common stock as part of a hedge, straddle, constructive sale or conversion transaction, or stockholders who acquired their shares of our common stock through the exercise of employee stock options or other compensation arrangements). In addition, this discussion does not address any tax considerations under state, local or foreign laws or U.S. federal laws other than those pertaining to the U.S. federal income tax. Holders are urged to consult their own tax advisors to determine the particular tax consequences, including the application and effect of any state, local or foreign income and other tax laws, of the receipt of cash in exchange for our stock pursuant to the merger.

If a partnership or other entity treated as a partnership for U.S. federal income tax purposes (a pass-through entity) holds our stock, the U.S. federal income tax treatment of an equity owner of such pass-through entity will generally depend on the status of such owners and the activities of the pass-through entity. If you are an equity owner of a pass-through entity holding our stock, you should consult your tax advisors.

U.S. Holders

The receipt of cash in the merger (or pursuant to the exercise of dissenters rights) by U.S. holders will be a taxable transaction for U.S. federal income tax purposes. In general, for U.S. federal income tax purposes, a U.S. holder will recognize gain or loss in an amount equal to the difference between:

- the amount of cash received in exchange for Company stock; and
- the U.S. holder s adjusted tax basis in such stock.

If the holding period in our stock surrendered in the merger (or pursuant to the exercise of dissenters rights) is greater than one year as of the date of the merger, the gain or loss will be long-term capital gain or loss. The deductibility of a capital loss recognized on the merger is subject to limitations under the Code. If a U.S. holder acquired different blocks of our stock at different times and different prices, such holder must determine its adjusted tax basis and holding period separately with respect to each block of our stock.

Under the Code, a U.S. holder of our stock may be subject, under certain circumstances, to information reporting on the cash received in the merger (or pursuant to the exercise of dissenters rights) unless such U.S. holder is a corporation or other exempt recipient. Backup withholding will also apply (currently at a rate of 28%) with respect to the amount of cash received, unless a U.S. holder provides proof of an applicable exemption or a correct taxpayer identification number, and otherwise complies with the applicable requirements of the backup withholding rules. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be refunded or credited against a U.S. holder s U.S. federal income tax liability, if any, provided that such U.S. holder furnishes the required information to the Internal Revenue Service in a timely manner.

Non-U.S. Holders

Any gain realized on the receipt of cash in the merger (or pursuant to the exercise of dissenters rights) by a non-U.S. holder generally will not be subject to United States federal income tax unless:

- the gain is effectively connected with a trade or business of the non-U.S. holder in the United States (and, if required by an applicable income tax treaty, is attributable to a United States permanent establishment of the non-U.S. holder);

- the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met; or

- we are or have been at any time during the five (5) years preceding the merger a United States real property holding corporation for U.S. federal income tax purposes and the non-U.S. holder owned more than 5% of our common stock at any time during the five years preceding the merger.

An individual non-U.S. holder described in the first bullet point immediately above will be subject to tax on the net gain derived from the merger under regular graduated U.S. federal income tax rates. An individual non-U.S. holder described in the second bullet point immediately above will be subject to a flat 30% tax on

Table of Contents

the gain derived from the merger, which may be offset by U.S. source capital losses, even though the individual is not considered a resident of the United States. If a non-U.S. holder that is a foreign corporation falls under the first bullet point immediately above, it will be subject to tax on its net gain in the same manner as if it were a United States person as defined under the Code and, in addition, may be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty.

We believe we are not and have not been at any time during the five (5) years preceding the merger a United States real property holding corporation for U.S. federal income tax purposes.

Information reporting and, depending on the circumstances, backup withholding (currently at a rate of 28%) will apply to the cash received in the merger (or pursuant to the exercise of dissenters rights), unless the beneficial owner certifies under penalty of perjury that it is a non-U.S. holder (and the payor does not have actual knowledge or reason to know that the beneficial owner is a United States person as defined under the Code) or such owner otherwise establishes an exemption. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be refunded or credited against a non-U.S. holder s U.S. federal income tax liability, if any, provided that such non-U.S. holder furnishes the required information to the Internal Revenue Service in a timely manner.

The summary set forth above is for general information only and is not intended to constitute a complete description of all tax consequences relating to the merger. Because individual circumstances may differ, each holder should consult its own tax advisor regarding the applicability of the rules discussed above to the holder and the particular tax effects to the holder of the merger, including the application of state, local and foreign tax laws.

Regulatory Approvals

The completion of the merger is subject to expiration or termination of the applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (which we refer to in this proxy statement as the HSR Act) and the rules thereunder. Under the HSR Act, the merger may not be consummated until the expiration or termination of a 30-day waiting period following the filing of notification and report forms with the Antitrust Division of the U.S. Department of Justice and the Federal Trade Commission or, if the Antitrust Division of the U.S. Department of Justice or the Federal Trade Commission issues a request for additional information, 30 days after the Company and TWC have each substantially complied with such request for additional information (unless this period is shortened pursuant to a grant of earlier termination). The Company and TWC filed their respective notification and report forms pursuant to the HSR Act with the Antitrust Division of the U.S. Department of Justice and the Federal Trade Commission on February 15, 2011 and the 30-day waiting period expired on March 17, 2011.

At any time before the effective time of the merger, the Federal Trade Commission, the Antitrust Division of the U.S. Department of Justice, foreign competition authorities or others could take action under the antitrust laws with respect to the merger, including seeking to enjoin the completion of the merger, to rescind the merger or to conditionally approve the merger upon the divestiture of assets of the Company or TWC or to impose restrictions on the operations of the combined company post-closing. Private parties may also bring objections or legal actions under antitrust laws under certain circumstances.

There can be no assurance that the merger will not be challenged on antitrust grounds or, if such a challenge is made, that the challenge will not be successful. Similarly, there can be no assurance that the Company or TWC will obtain the regulatory approvals necessary to consummate the merger or that the granting of these approvals will not involve the imposition of conditions to the consummation of the merger or require changes to the terms of the merger. These conditions or changes could result in the conditions to the merger not being satisfied prior to the termination date

(which is described in The Merger Agreement Termination beginning on page 71) or at all. Under the terms of the merger agreement, the parties have agreed to use their reasonable best efforts to take all actions and do all things necessary, proper or advisable under the merger agreement and applicable laws to consummate the merger and the other transactions contemplated by the merger agreement as promptly as practicable, including preparing necessary documentation and making necessary filings to obtain all consents,

approvals, orders, exemptions and authorizations necessary from any third party and/or governmental entity in order to consummate the merger or any of the other transactions contemplated by the merger agreement.

The Voting Agreements

Concurrently with the execution and delivery of the merger agreement, each of Atlantic, Arthur Becker and netASPx Holdings, Inc. entered into voting agreements with TWC. According to a Schedule 13D/A filed on February 3, 2011 with the SEC by Atlantic, Madison Technology LLC and Arthur Becker, Atlantic beneficially owns 13,841,028 shares of our common stock and Mr. Becker beneficially owns 1,875,536 shares of our common stock. According to the records of the Company, netASPx Holdings, Inc. beneficially owns 4,030,413 shares of our Series A Convertible Preferred Stock as of the record date.

The following summarizes material terms and conditions of the voting agreements, copies of which are attached to this proxy statement as Annexes D-1 and D-2 and which we incorporate by reference into this proxy statement, and related agreements, but does not purport to describe all of the terms of the voting agreements. This summary does not purport to be complete and may not contain all of the information about the voting agreements that is important to you. We encourage you to read carefully the voting agreements in their entirety, as the rights and obligations of the parties are governed by the express terms of the voting agreements and not by this summary or any other information contained in this proxy statement.

Each individual and/or entity who entered into a voting agreement with TWC entered into it in his or their capacity as a stockholder of the Company and agreed to appear at the special meeting or any adjournment or postponement thereof with respect to the merger or otherwise cause their shares to be counted as present for purposes of calculating a quorum.

netASPx Holdings, Inc. agreed to vote its covered shares at the special meeting:

- in favor of adoption of the merger agreement and any other action or approval required in furtherance of the merger;
- against any action, approval or agreement that would compete with, impede, interfere with, or prevent the adoption of the merger agreement or the consummation of the transactions contemplated by the merger agreement;
- against any action, approval or agreement that would result in any of the conditions to our obligations to effect the merger under the merger agreement not being fulfilled or satisfied;
- against any amendment to our certificate of incorporation or by-laws that is not requested or expressly approved by TWC, to the extent such amendment would materially interfere with the consummation of the transactions contemplated by the merger agreement; and
- against any dissolution, liquidation or winding up of the Company.

Atlantic and Mr. Becker agreed to vote their covered shares at the special meeting:

- in favor of adoption of the merger agreement and any other action or approval required in furtherance of the merger;

against any action, approval or agreement that would compete with, impede, interfere with, adversely effect, tend to discourage or inhibit the adoption of the merger agreement or the timely consummation of the transactions contemplated by the merger agreement;

against any action, approval or agreement that would result in any breach of a representation, warranty, covenant or agreement of the Company under the merger agreement;

against any amendment to our certificate of incorporation or by-laws that is not requested or expressly approved by TWC; and

against any dissolution, liquidation or winding up of the Company.

In the event that the Company s board of directors validly makes a company adverse recommendation change in response to a takeover proposal which constitutes a superior proposal but the merger agreement is

not terminated by TWC or the Company, the number of each stockholder s covered shares subject to the requirements under the voting agreement will be reduced, on a *pro rata* basis with each other stockholder of the Company who executed a similar voting agreement in connection with the merger to the extent necessary in order that the aggregate number of covered shares subject to and required to be voted in accordance with such other similar voting agreements represents no more than 32% of the voting securities of the Company outstanding at the time of such vote and entitled to vote.

The entities and/or individuals signing the voting agreements have agreed that they will be bound by non-solicitation restrictions that are substantially the same as the non-solicitation provisions of the merger agreement described below under The Merger Agreement No Solicitation of Takeover Proposals beginning on page 64. These individuals further agreed to certain restrictions on the transfer of their covered shares.

The Warrant Holders Agreement

Concurrently with the execution and delivery of the merger agreement, each of SPCP Group, LLC and SPCP Group III, LLC entered into a warrant holders agreement with the Company. According to the warrant holders agreement SPCP Group, LLC entered into with the Company, SPCP Group, LLC owns warrants to purchase 300,033 shares of the Company s common stock. According to the warrant holders agreement SPCP Group III, LLC entered into with the Company, SPCP Group III, LLC owns warrants to purchase 900,098 shares of the Company s common stock.

The following summarizes material terms and conditions of the warrant holders agreement, a copy of which is attached to this proxy statement as Annex E and which we incorporate by reference into this proxy statement, and related agreements, but does not purport to describe all of the terms of the warrant holders agreement. This summary does not purport to be complete and may not contain all of the information about the warrant holders agreement that is important to you. We encourage you to read carefully the warrant holders agreement in its entirety, as the rights and obligations of the parties are governed by the express terms of the warrant holders agreement and not by this summary or any other information contained in this proxy statement.

The Company, SPCP Group, LLC and SPCP Group III, LLC each agreed that at the effective time of the merger, each warrant to purchase the Company s common stock held by SPCP Group, LLC or SPCP Group III, LLC will be canceled and converted into the right to receive a cash payment equal to the product of the total number of unexercised shares of our common stock subject to the warrant as of the effective time multiplied by the excess, if any, of $5.50 over the exercise price per share of our common stock subject to such warrant, less any applicable withholding taxes.

Delisting and Deregistration of Common Stock

If the merger is completed, the Company s common stock will be delisted from the NASDAQ Capital Market and deregistered under the Exchange Act. Following the merger, the Company will no longer be an independent public company.

Legal Proceedings Regarding the Merger

On February 8, 2011, a purported class action lawsuit was filed against the Company, TWC, Merger Sub, our directors and certain of our officers in the United States District Court for the District of Massachusetts, under the caption *Tansey v. NaviSite, Inc., et al.* The lawsuit alleges, among other things, breach of fiduciary duty by the directors and officers in connection with the acquisition contemplated by the merger agreement, and asserts aiding and abetting claims against the Company, TWC and Merger Sub. Subsequently, on March 9, 2011, the plaintiff in this lawsuit filed an amended complaint, including the same allegations described above and adding an allegation that the

directors and officers breached their fiduciary duty by making inadequate disclosures in our preliminary proxy statement. The plaintiff seeks certain equitable relief, including enjoining the acquisition, and attorney s fees and other costs. We, our board of directors and TWC believe that this lawsuit is without merit and intend to vigorously defend our position.

On February 9, 2011, a second purported class action lawsuit, captioned *Chain v. Ruhan, et al.,* C.A. No. 11-0514-BLS, was filed against the Company, TWC, Merger Sub and our directors in the Superior Court,

Business Litigation Session, of Suffolk County of the Commonwealth of Massachusetts. The lawsuit alleges, among other things, that our directors breached their fiduciary duties in connection with the acquisition contemplated by the merger agreement by, among other things, failing to maximize the value of the Company, and asserts a claim for aiding and abetting the breach of fiduciary duty claim against the Company, TWC and Merger Sub. The plaintiff seeks equitable relief, including enjoining the acquisition, to rescind the transaction if not enjoined, damages, attorneys fees and other costs. We, our board of directors and TWC believe the claims are without merit and intend to vigorously defend against the claims asserted in the lawsuit.

On March 23, 2011, the Company, TWC, and the plaintiffs in both lawsuits entered into a Memorandum of Understanding providing for the settlement of both lawsuits. The Memorandum of Understanding provides that, in consideration for the settlement of both lawsuits, the Company agreed to make certain additional disclosures in this proxy statement regarding the background of the events leading to the signing of the merger agreement and with respect to certain analyses undertaken by Raymond James in connection with Raymond James s assessment of the fairness to the Company s stockholders, from a financial point of view, of the common stock merger consideration. At this point, the settlement agreement is not final and is subject to a number of future events including approval of the settlement by the United States District Court for the District of Massachusetts. In addition, in connection with the settlement and as provided in the Memorandum of Understanding, and subject to approval by the court, the Company (or any successor-in-interest) or its insurer will pay to plaintiffs counsel for both lawsuits their fees and expenses in an amount not to exceed $360,000. **This payment will not affect the amount of consideration to be paid to stockholders of the Company in connection with the merger.** Furthermore, any payment is also conditioned on the merger being consummated so the Company s stockholders will not indirectly bear such payment. There can be no assurance that the settlement will be finalized or that the court will approve the settlement. The settlement terms provide that the lawsuits will be dismissed with prejudice against all defendants.

The defendants in the lawsuits, including the Company, each have denied, and continue to deny, all liability with respect to the facts and claims alleged in the lawsuits. The defendants do not admit that the Company s preliminary proxy statement contains any inadequate disclosure or that any of the information included in the preliminary proxy statement filed with the SEC is material or required by any applicable rule, statute, regulation or law. The proposed settlement is not, and should not be construed as, an admission of wrongdoing or liability by any defendant. The defendants in the lawsuits, including the Company, believe the lawsuits are without merit and they entered into the Memorandum of Understanding solely to avoid the burdens and expense of further litigation.

THE MERGER AGREEMENT

The following summarizes material terms and conditions of the merger agreement, a copy of which is attached to this proxy statement as Annex A and which we incorporate by reference into this proxy statement, but does not purport to describe all of the terms of the merger agreement and related agreements. This summary does not purport to be complete and may not contain all of the information about the merger agreement that is important to you. We encourage you to read carefully the merger agreement in its entirety, as the rights and obligations of the parties are governed by the express terms of the merger agreement and not by this summary or any other information contained in this proxy statement.

Effective Time

The effective time of the merger will occur at the time that we duly file a certificate of merger with the Secretary of State of the State of Delaware on the closing date (or such later time as agreed to by the parties to the merger agreement and specified in the certificate of merger). Unless otherwise agreed in writing by the Company and TWC, the closing will take place on the second business day after all of the conditions to the merger set forth in the merger agreement have been satisfied or waived other than conditions that by their nature are to be satisfied at the closing, but

subject to the fulfillment or waiver of those conditions.

Structure

At the effective time of the merger, Merger Sub will merge with and into us. The separate corporate existence of Merger Sub will cease and the Company will survive the merger and continue to exist after the merger as a wholly owned subsidiary of TWC. All of the Company s and Merger Sub s rights, privileges, immunities, powers and franchises will vest in the surviving corporation, and all of their debts, liabilities, obligations and duties will become those of the surviving corporation. Upon consummation of the merger, the directors of Merger Sub will be the initial directors of the surviving corporation and the officers of the Company will be the initial officers of the surviving corporation, in each case, until their successors are duly elected or appointed and qualified or until their earlier death, resignation or removal. Promptly following the effective time of the merger, the Company s common stock will be delisted from the NASDAQ Capital Market, deregistered under the Exchange Act and no longer publicly traded. The Company will be a privately held corporation and the Company s current stockholders will cease to have any ownership interest in the Company or rights as Company stockholders.

Conversion of Common Stock and Series A Convertible Preferred Stock

At the effective time of the merger, each share of the Company s common stock (other than certain performance-based restricted shares) and the Company s Series A Convertible Preferred Stock issued and outstanding immediately prior to the effective time of the merger will automatically be canceled and will cease to exist and will be converted into the right to receive $5.50 in cash and $8.00, respectively, in each case, without interest and less any required withholding taxes, other than shares of the Company s common stock or the Company s Series A Convertible Preferred Stock:

owned by the Company, TWC or the Merger Sub or any other direct or indirect wholly owned subsidiary of the Company, TWC or the Merger Sub, which shares will be canceled without cash or other consideration; and